SECP

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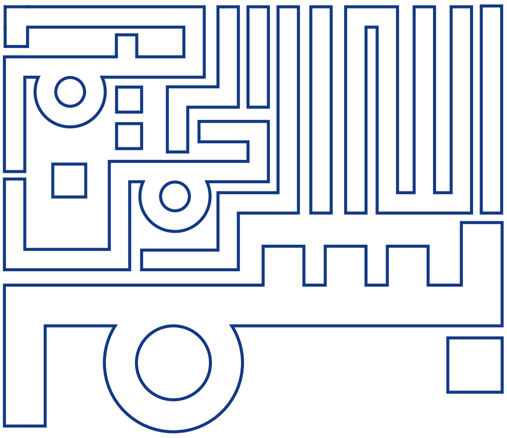
SECP

ANNUAL REPORT 2012

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN



Theme of this Annual Report establishes the relationship between Nature and the SECP

Nature: The Super Regulator

Nature always surrounds us. It sparkles, bright and golden, in the morning and sets the sky aflame at sunset. Nature can magically transform any landscape into wonderland. It can paint a rainbow in the sky and add beautiful autumn colors to the trees. All these marvels are possible because "Nature is the Super Regulator". It is nature, which harmonizes every facet of the universe and keeps on regulating it, directly affecting our life, making it beautiful, worth living and keeping a balance in every aspect.

In terms of the wide spectrum it regulates, the Securities and Exchange Commission of Pakistan, the apex regulator for the capital market in the country, is somewhat similar to nature. We believe in balanced, harmonious and sound regulatory principles, which provide impetus for high economic growth and foster social harmony in the country, just as nature does. It is our ambition to transform Pakistan's financial landscape and add vitality to the capital market - so that it can serve the needs of savers, investors, entrepreneurs and businesses - for a prosperous future.

The flight to excellence begins!

This report has been prepared in pursuance of Section 25 of the Securities and Exchange Commission of Pakistan Act, 1997, for the purpose of reporting the activities and performance of the Securities and Exchange Commission of Pakistan during the period from July 1, 2011 to June 30, 2012.

A Falcon known for its accurate vision

Vision
The development of modern and efficient corporate sector and capital market, based on sound regulatory principles, that provide impetus for high economic growth and foster social harmony in the country.

Mission
To develop a fair, efficient and transparent regulatory framework, based on international legal standards and best practices, for the protection of investors and mitigation of systemic risk aimed at fostering growth of a robust corporate sector and broad based capital market in Pakistan.

Strategy
To develop an efficient and dynamic regulatory body that fosters principles of good governance in the corporate sector, ensures proper risk management procedures in the capital market, and protects investors through responsive policy measures and effective enforcement practices.

A colourful Parrot, reflecting how nature creates patterns

CONTENTS

Muhammad Ali
Chairman, SECP

Chairman's Message

Once again I am having the honour of presenting the annual report of the Securities and Exchange Commission of Pakistan (SECP). This report covers the SECP's activities from July 2011 to June 2012. In my last year's message I had highlighted the key areas for a robust and vibrant non-bank financial market consisting of capital market, non-bank finance companies (NBFCs), insurance and corporate sectors. During the year a lot of effort has been put into these areas by the SECP to achieve these objectives and to make non-bank financial market self-sustaining, competitive and the preferred choice of investment. We are in constant dialogue with the wider stakeholders on these areas to identify the exact measures needed. I am pleased to inform you that a number of measures were taken during the year while the remaining will be taken during the coming year.

At the macro level, our markets offer various investment avenues and products for the general public such as bank deposits, currencies, real estate, national savings, government securities, corporate bonds, gold and equities. Despite offering return lower than the inflation, bank deposits, government securities and national schemes remain a preferred choice for savers due to their wider outreach and the general public's confidence in these instruments. At the individual level, the real estate is a popular investment avenue offering good returns. However, fraud is fairly commonplace due to a lack of transparency in the real estate transactions. The fact that there is no regulatory authority to supervise this sector has not helped matters. The corporate bonds can be a viable option for both savers and borrowers; however, this segment has remained underdeveloped primarily due to the crowding out effect and a lack of infrastructure necessary for a bond market. Gold as a mode of investment has given high returns in recent years, but internationally its price has stabilized. Finally, we have equities as a mode of investment; as an asset class, despite all the turbulence, equities have exhibited an average annual return of 30% over the last decade.

In light of the above, the question remains: Why does the general public stay away from asset classes, which offer better returns? A similar question arises when we look at our insurance and corporate sector, where penetration remains very low. Our interaction with stakeholders has identified certain broad issues for each sector of the non-bank financial market which are explained below. Before touching on these issues I would like to highlight the performance of the non-bank financial markets during the year and also put these markets in the regional perspective.

Our capital market, non-bank financial, insurance and corporate sectors have immense potential, which is borne out by the fact that the market has shown such resilience even in the face of pressures such as the depreciation of the rupee, severely limited foreign investment, uncertain law and order situation, etc. The mutual funds industry showed a healthy increase of 41% from the last year, while the net assets of private pension funds grew by 76%, again showing the strength and potential of our market. The insurance penetration to GDP ratio in Pakistan has gone up from 0.7% to 0.9% over the last year but this is still low compared to other countries in the region. The KSE 100 index grew by just over 10% during the year, but picked up in the second half of 2012 to post an increase of 48% in the calendar year 2012, becoming one of the best performing markets in the world. The trading volume at the PMEX was over Rs900 billion during the year with 3.7 million contracts being traded. With regard to the corporate sector, almost 4,000 companies were registered during the year and, with the introduction of fast track registration services, companies can now be registered within four hours.

Despite this performance, the statistics for financial inclusion in Pakistan are woefully inadequate with only 14% of our population having access to formal financial services—the lowest in the region. The number of investors in Pakistan is one-tenth of the level in Bangladesh (with a smaller population) and one-twentieth of the level in Turkey (with a population of about 75 million). The financial landscape in Pakistan—in terms of distribution—is severely inadequate. We have fewer than 200,000 investors, which is around 0.1% of our total population, a vast majority of whom are based in the three large cities, while asset management companies have a presence in only 27 cities and stockbrokers have a presence in only 18 cities. With over 60% of our population living in the rural areas, our capital market has almost no outreach there and even in the urban centres it is limited to the principal cities of Karachi, Lahore and Islamabad. Looking at the corporate sector, we have 3 million businesses in Pakistan, however, of these only about 63,000 businesses are registered as corporate entities.

In this context, I would like to give an account of the SECP's efforts with regard to the following aspects and discuss the measures we are taking to ensure an active and transparent non-bank financial market and corporate sector:

1. Capital Market
2. Non-bank Financial Sector
3. Insurance Sector
4. Corporat e Sector

5. Legal Reforms
   a. Corporate Law Review Commission
   b. Corporate Rehabilitation Act
6. Collaborative Measures
   a. Local/Domestic
   b. International

1. Capital Market

During the last year we identified the five key areas, requiring a concerted effort for the development and growth of our capital market. I would like to discuss them briefly:

i. Investor Education and Awareness

In collaboration with key capital market stakeholders, the SECP has initiated an ambitious countrywide programme for investor education. It targets various categories of potential investors such as university students, general investors and retired individuals. The mediums for reaching out to these potential investors are social media for addressing the youth, separate investor education website, media campaign and university visits. The exchanges, Mutual Funds Association of Pakistan (MUFAP) and the Insurance Association of Pakistan (IAP) are collaborating as partners with the SECP to widen the coverage of the programme. In addition, the SECP has introduced a centralized complaints handling system for providing investors a quick redress to their grievances.

With regard to aggrieved investors looking for speedy justice, the Commission is exploring mediation as an alternative dispute resolution (ADR) mechanism which aims to resolve disputes informally. For this purpose, the SECP has signed a memorandum of understanding with the Karachi Centre for Dispute Resolution (KCDR) and this will not only have a positive impact on investor confidence, but would also reduce the extremely heavy burden of litigation on the courts.

ii. Infrastructure Development through Distribution Networks

The demutualization of the stock exchanges, one of the most important reforms, acts as a backdrop to rejuvenating our capital market. We are poised to take the next step of attracting foreign strategic investors to bring in their much needed expertise, technological advantage and precious capital. However, this is just a means to an end —the main objective being to have a fair, transparent and vibrant capital market. The conflict of interest previously inherent in the stock exchanges has been removed and, after the next phase, it will build a positive perception of the stock markets, thus leading to greater investor confidence.

In order to improve the outreach of our capital market across Pakistan, the Commission is bringing in a revised regime for market intermediaries, which will encourage the introduction of a sub-broker regime to expand outreach to previously neglected urban pockets and rural areas. This will allow brokers to outsource the operations of subordinated offices, in places where they have no presence, through the principal-agent relationship and thus expand their network. We would further like the exchanges to step forward to capitalize on automation technologies, including mobile phones and the Internet.

iii. Wide range of Products and Services with Risk Profiling

With regard to ensuring that the capital market has a wide range of products and services to offer, the SECP is also working to encourage the introduction of new products such as Shariah-compliant investment alternatives as well as strengthening the equity market and development of derivative, debt, commodities and currencies markets.

To strengthen the equity market, we are working with the stock exchanges to introduce a Small and Medium Enterprises (SME) board and have formed a technical committee, comprising members from all the three stock exchanges and the SECP, for introducing a mechanism for listing of small capital based companies. For the development of the commodities market, the Commission will encourage competition by allowing more commodity exchanges as this will lead to healthy competition and business generation.

In order to accelerate growth in the debt market the possibility of listing of certain government debt instruments at the stock exchanges and integration of National Savings Scheme instruments into the mainstream capital market are being explored. And to promote transparency and price discovery of debt securities and to minimize pricing issues of debt securities, establishment of an independent Bond Pricing Agency (BPA) conforming to international standards is in the pipeline.

iv. High Standards of Governance

In order to ensure high standards of governance, ethical practices and a strong culture of compliance, our vision is for a consolidation of brokers, leading to fewer but well capitalized brokers. With demutualization, the regulatory function of the exchanges has been separated, through the introduction of the regulatory officer, for better fulfilling their responsibilities as front line regulators.

Furthermore, the SECP is formulating a code of conduct for trading/investment practices. The code of conduct is aimed at enhancing the control structure and policies of market intermediaries and financial institutions. It is based on the essence that market participants and financial institutions should engage in trading/investment practices with the principles of good faith and fair business conduct. These regulations shall be applicable to the securities market operations of asset management companies, brokers, commercial banks, DFIs, insurance companies, investment advisors, investment finance companies, leasing companies, housing finance companies, modaraba management companies and pension fund managers.

With the intention of ensuring that directors of listed companies are fully aware of their duties and can play an effective role in the governance of companies in line with the best international practices, the 2012 Code of Corporate Governance requires that in every listed company at least one director should obtain certification each year commencing from July 2012, while all directors need to be compliant by June 30, 2016. Further, to facilitate the directors on the boards of listed companies, through the new code, we have allowed Directors Training Programmes offered by any institution—local or foreign—that meets the criteria laid down by the SECP.

v. Human Resource Capacity Building and Establishing Standards of Ethical Conduct

We have introduced fit-and-proper guidelines for those entities that are licensed by the SECP, e.g., the non-bank financial and insurance sectors, reflecting a changing mindset at the SECP where we are moving from a purely capital requirement and financial strength based view to a capital as well as capacity and governance based regime.

We are also working on human resource capacity building and establishing standards of ethical conduct for the market participants through certifications. We are actively engaged with the Institute of Capital Markets in developing regulations to train and certify market intermediaries, with the eventual aim of mandating such programmes for all persons providing services in the capital markets. Currently, the ICM is offering certification programmes for stock brokers, mutual fund distributors and analysts. Additionally, programmes in the pipeline will target markets and regulations, compliance and financial advisors.

2. Non-bank Financial Sector

As a step towards reviving the NBF sector, the Commission is starting wider stakeholder consultation on the report of the NBF sector reform committee, which was formed in October 2011 to review the NBF sector regime. A strong NBF sector will not only promote savings by offering different asset classes to the investors, but will also provide alternative fund raising opportunities to the participants of financial system. The committee has made detailed recommendations about each of the components of the NBF sector.

Some key recommendations of the committee include providing meaningful incentives to the AMCs for targeting retail investors, such as charging distribution expenses to fund as a percentage of net assets and making it mandatory for the AMCs to establish their own distribution network. Other proposed reforms for the mutual fund industry include reduction in the annual regulatory fee provided more than 50% of funds' net assets are held by retail clients, introduction of concept of expense ratio, introduction of multiple classes of units based on the investment amount, etc. The investment finance services (IFS) are being broken down and redefined as stock brokerage, investment advisory, corporate advisory, securities financing and securities underwriting services, and each component of IFS has been further defined. Flexibility has been offered to be classified as non-bank finance company (NBFC) and to obtain either a full scope or limited scope IFS license. For the REITs, the committee has recommended considering a reduction in the REIT fund size to address the issue of capital constraints and allow launching of medium size REIT projects having better potential for growth and return, reduction in capital requirements for RMCs to facilitate entry of professionally qualified fund manager in the REITs business, allowing AMCs to manage REITs also, expanding the domain of REIT eligible cities and rationalization of the whole approval process to speed up the regulatory due diligence.

3. Insurance Sector

We notified a new solvency regime for insurers in 2012, which rationalizes the admissibility limits for certain assets, enhances the minimum solvency requirement for life and non-life insurers and enhances the statutory fund requirement by introducing a risk based margin above the current policyholders' liability. Furthermore, the Takaful window operations, for traditional insurance companies to be able to offer Shariah-compliant products and services, have already been introduced while the SECP is working to introduce new insurance products such as the terrorism insurance pool, health, livestock, crop, war and natural catastrophe insurance. A Shariah Advisory Board comprising of eminent Islamic scholars and market professionals has been approved by the Commission to ensure that all products and services offered are in conformity with Islamic principles.

Realizing the needs of the lower income segments of the economy, the SECP, in collaboration with the World Bank and the FIRST Initiative, has prepared and published a diagnostic report on the state of microinsurance in Pakistan. The draft regulations are being developed through focus group discussions by involving the various stakeholders across Pakistan.

With regard to revamping the insurance sector framework, in May 2012 the SECP constituted an insurance industry reform committee which is working on five distinct areas, i.e. regulatory reforms, market development, operational challenges, education and awareness, and technological development. They are presently working on identifying factors which have hampered the growth and development of the insurance industry in Pakistan, and give recommendations on how to overcome these hurdles. The Commission is focusing on strengthening areas such as modern risk-based supervisory regime, issues related to new distribution channels, etc., as well as seeking delegation of necessary punitive and civil prosecution powers, in line with the International Association of Insurance Supervisors (IAIS) principles and best international practices.

4. Corporate Sector

For the development of the corporate sector in Pakistan, the SECP is separating the compliance and facilitation functions as these require different skills and mindsets. For this purpose, a registrars' conference was held to bring together all the registrars and discuss the way forward for the corporate registry function of the SECP. The major objectives were to explore how to have a customer-oriented/facilitative mindset and conduct a strength, weaknesses, opportunities and threats (SWOT) analysis to bring about desired changes. We have identified the top 5 customer service areas and the critical success factors, barriers and action plans for the SECP to achieve these objectives. In order to achieve these objectives, and for the implementation of the action plans, teams with specific mandates have already started work on implementing the action plan.

For public sector enterprises, we are working on introducing rules for their better governance to ensure that the drain on the national exchequer is minimized and to further improve and raise the standards of corporate governance. Furthermore, we are considering a voluntary code for private and family owned enterprises to promote a culture of responsibility, ethics and sound management. The Commission is also actively engaged in establishing an Audit Oversight Board for the independent supervision of the auditing profession, which will bring in greater transparency.

With regard to the corporate sector, only 2% of all businesses are registered as corporate entities in Pakistan. This is because of our tax structure, which is still tilted in favour of sole proprietorships and partnership concerns compared to corporate entities. Registered companies with statutory and audit obligations are required to pay higher rates of tax, which is not conducive to corporatization. The country cannot achieve higher levels of documentation and governance without corporatization, which is not possible without first fixing the anomaly in the taxation structure.

We are enhancing our enforcement capacity and starting July 2013 we plan to conduct annual onsite inspections and quarterly offsite monitoring of all licensed entities, including capital market infrastructure institutions, stock and commodities brokers, and NBF and insurance companies. This will reduce the incidence of corporate and securities market frauds and malpractices.

5. Legal Reforms

With regard to the legal reforms initiated by the SECP over the last few years, the Parliament graciously approved the Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012, during the year, which is one of the biggest reforms in our capital market.

However, the Commission still has the following three major draft laws which are at different stages of approval. These laws are aimed at updating outdated laws, the oldest of which is the Securities and Exchange Ordinance, 1969, and streamlining the mandate and powers of the SECP. Subsequent to their promulgation, the SECP's powers regarding enforcement, fit and proper compliance, and product development will be enhanced. We shall be taking up the matter of their early enactment with the government:

1. SECP (Regulation and Enforcement) Bill
2. Securities Bill
3. Futures Trading Bill

a. Corporate Law Review Commission (CLRC)

For the future, the Commission has also revived the Corporate Law Review Commission (CLRC) to draft a new company law to modernize and reform the existing regime of the regulation of corporate sector. The key themes and hallmark of the new company law will be simplification, flexibility, developing an enterprise culture and balanced regulation. The new company law is being drafted based on the principles of providing incentives for incorporation by simplifying procedures and strengthening legal, regulatory and auditing requirements to promote and enhance corporate governance, enhancing shareholders' engagement and promoting a long-term investment culture to facilitate the growth of companies, creating a flexible, exemption-based regulatory regime to accommodate promotion of small and mid-sized companies, requiring different standards of reporting based on the size of the business, and ensuring shareholder and investor protection. We expect to finalize the draft by September 2013 for public consultation and subsequent approval from the Parliament.

b. Corporate Rehabilitation Act (CRA)

As for the Corporate Rehabilitation Act, the SECP conducted the first stakeholder meeting in September 2012 during which the participants expressed extremely divergent views as to its scope and contents. The State Bank of Pakistan (SBP), All Pakistan Textile Mills Association (APTMA) and certain other stakeholders also expressed their concerns. In view of this, the SECP canceled subsequent roundtables. There is a need to ensure a balance between competing considerations and that a strong rehabilitation law is available to maximize social benefit by adopting a modern corporate rehabilitation regime suited to Pakistan's local corporate environment. Therefore, we will review the act in its entirety by involving various local as well as international stakeholders.

6. Collaborative Measures

a. Local/Domestic

The SECP has taken up the matter of a joint forum/council for financial regulators and for us it is still an issue of extreme importance. Historically, our regulatory bodies have worked in separate domains with limited coordination. However, for seamless regulation in a globally integrated market, it is imperative that the SECP, SBP and FBR should work in close cooperation. In recent years there has been a rising trend towards forming conglomerates and for effective regulation of these, a high level of coordination and consolidated supervision is required if we truly desire to develop Pakistan's financial sector as our engine of growth. In March, 2012, the SECP has signed an MoU with the FBR for exchange of information and mutual cooperation to ensure that we are able to comprehensively regulate our respective areas of responsibility.

In order to boost confidence in the market, it is important that investments in different asset classes should be given the same tax treatment, so as to avoid distortion and misallocation of resources. This was the case with the original implementation of the capital gains. In early 2012, the SECP proposed amendments to resolve the issues and this has resulted in a transparent tax collection mechanism through the National Clearing Company of Pakistan Ltd. The SECP aims to develop the NBF sector and towards this objective we shall require support from the FBR so as to secure a favourable investment environment and remove discrimination in tax treatment between pension funds established under the VPS Rules and those set up by employers under labour law or in pursuance of contract of employment.

b. International

As part of its international commitment, the SECP is a member of international regulatory standard setting bodies for securities, insurance and pension sector, i.e., the International Organization of Securities Commissions (IOSCO), International Association of Insurance Supervisors (IAIS) and International Organization of Pension Supervisors (IOPS), and is actively involved in their activities through its participation in various working groups, committees, etc.

The SECP has been elected—from the Asia Pacific Region—to the IOSCO Board to oversee and approve all its operational, administrative and policy decisions. Furthermore, in order to strengthen its international linkages, four new MoUs have been signed with the international counterpart regulators of Turkey, Oman, Jordan and Morocco, for exchange of information and mutual cooperation.

In conclusion, I would like to express my gratitude to the Government and the Finance Minister for their valuable and continued support for the development of the capital market. I would also like to thank the Parliament for enacting important legislation in this regard. I am grateful to the Chairman and members of the Policy Board as well as the Commissioners for their guidance and support. A special mention needs to be made of the SECP's senior management, officers and staff for their hard work and commitment. And credit needs to be given to the market participants and stakeholders for their invaluable feedback and suggestions.

Securities and Exchange Policy Board

The Securities and Exchange Commission of Pakistan Act, 1997, provides that the Federal Government shall appoint a Securities and Exchange Policy Board (the Board) consisting of nine members, of which five shall be from the public sector and four from the private sector. The ex-officio members are Secretary, Finance Division; Secretary, Law and Justice Division; Secretary, Commerce Division; Chairman, SECP; and a Deputy Governor of the State Bank of Pakistan (SBP) nominated by the Governor, SBP. The Federal Government has appointed the Secretary, Finance Division, as the Chairman of the Board.

During the year under review, Dr Waqar Masood Khan, Secretary, Finance Division, remained Chairman of the Board till February 13, 2012 when Mr. Abdul Wajid Rana replaced him. As regards ex-officio Members of the Board, Justice (Retd) Yasmin Abbasey, Secretary, Law and Justice Division became ex-officio Member of the Board on April 13, 2012, on transfer of her predecessor.

The Securities and Exchange Policy Board comprises the following executives:

Mr. Abdul Wajid Rana
Federal Secretary, Finance Division
Chairman, Securities and Exchange Policy Board

Mr. Muhammad Ali
Chairman
Securities and Exchange
Commission of Pakistan

Mr. Muneer Qureshi
Secretary
Commerce Division

Justice (Retd) Yasmin Abbasey
Secretary
Law, Justice, Human Rights
and Parliamentary Affairs

Mr. Kazi Abdul Muktadir
Deputy Governor
State Bank of Pakistan

Mr. Faisal Bari
Head of Economics Department
Lahore University of
Management Sciences

Policy Board Meetings

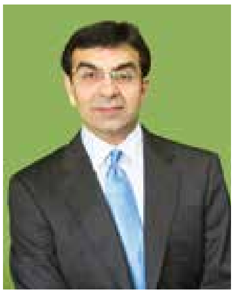
Two meetings of the Policy Board were held during the year under review. In the said meetings the Board considered and approved the budget of the SECP for the financial year 2011-2012. Besides, the following major issues came under discussion of the Board and appropriate decisions were taken thereof:

- Approval of the Insurance Companies (Sound and Prudent Management) Regulations, 2011.
- Approval for revising the solvency requirements related to the Rules of the Securities and Exchange Commission (Insurance) Rules, 2002.
- Submission of Annual Report of the Commission along with its Annual Accounts for the financial year ending June 30, 2011, to the Federal Government.
- Approval of Procedure for initiation of proceedings against employees of the Commission after verification of their degrees/transcripts and certificates in terms of section 8(2) of the Securities and Exchange Commission of Pakistan Act, 1997.
- Grant of bonuses, salary increase and compensation review for the year 2012.
- Approval of amendments to the SECP's Service Manual.
- Approval of amendments to the HR Handbook.

The Commission

1. Muhammad Ali
   Chairman, SECP
2. Tahir Mahmood
   Commissioner, Company Law Division
3. Imtiaz Haider
   Commissioner, Securities Market Division
4. Mohammed Asif Arif
   Commissioner, Insurance Division
5. Zafar Abdullah
   Commissioner, Organization Effectiveness Division and Talent Management, Finance & Communications Division

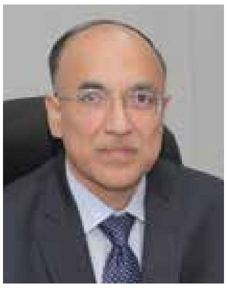
Muhammad Ali



Mr. Muhammad Ali, the SECP chairman, has an extensive and diversified corporate and financial markets experience, spread over 20 years in Asia, Europe and North America. An MBA from the Institute of Business Administration (IBA) Karachi, he is a well-known professional and entrepreneur. He started his career with Citibank and moved on to Smith New Court Securities in London and was responsible for selling Indian, Pakistani, Sri Lankan and Bangladeshi equities to British and continental European institutional investors.

In 2006, he moved to the UAE and then to Canada and changed his focus to private equity investments and setting up of new businesses in different parts of the world. He has been the driving force behind the creation and success of various companies in Pakistan, the Middle East and North America in financial, real estate development, information technology and digital content management sectors.

Tahir Mahmood



Mr. Tahir Mahmood, Commissioner, Company Law Division, had earlier worked as Executive Director (Enforcement) at the SECP head office. He had also served as head of the Companies Registration Office, Karachi. He has 28 years of experience in accountancy, finance, administration of corporate laws, corporate governance and enforcement.

In addition to corporate laws, his areas of expertise include international financial reporting and accounting standards. He is a Fellow Member of the Institute of Cost and Management Accountants of Pakistan and of the Institute of Corporate Secretaries of Pakistan. Moreover, he has a law degree from the University of Karachi.

Imtiaz Haider

Mr. Imtiaz Haider, Commissioner, SMD, has over 20 years' experience in finance, business management, corporate governance, academia and marketing. He is an MBA as well as a law graduate. Earlier, he served as Head of Corporate Governance, NIT and Executive Director, SECP. Before his appointment as Commissioner, he was heading Islamabad Stock Exchange as its Managing Director. He has attended advanced training courses in the United States, Thailand and Australia.

Mohammed Asif Arif

Mr. Mohammed Asif Arif, Commissioner, Insurance, has a rich experience of insurance, spanning over two decades. He is an MBA from the Institute of Business Administration (IBA) Karachi and an ACII from the London-based Chartered Insurance Institute, which conferred the status of Chartered Insurer on him. He has attended numerous seminars, conferences and training programs on risk management and insurance. He is well known for his technical and management skills in the insurance industry. He has worked with Muslim Insurance (now Atlas Insurance), Adamjee Insurance and EFU General in various capacities. He has served on various committees of the Insurance Association of Pakistan and Executive Committee of the Karachi Insurance Institute.

Zafar Abdullah

Mr. Zafar Abdullah, Commissioner, Organization Effectiveness Division and Talent Management, Finance and Communication Division, holds a bachelor's degree in commerce from the University of Karachi and is a fellow member of the Institute of Chartered Accountants of Pakistan. He did his chartered accountancy from KPMG Pakistan and received extensive training in the areas of assurance and audit, financial advisory and corporate advisory.

Earlier, he had served the SECP as Executive Director in the Securities Market Division, Karachi Stock Exchange as Chief of Operations, Central Depository Company of Pakistan as Head of Operations, Dewan Mushtaq Group as Chief Compliance Officer and company secretary and Crosby Securities Pakistan Limited as Chief Executive Officer. His last assignment was as Company Secretary and Head of Legal Division with Faysal Bank Limited. He joined the Commission on August 17, 2012.

An Eagle soaring in the sky with an aim to reach greater heights

Strategic Objectives 2011-2014

Sectors/Markets

- Encouraging market depth and enhancing liquidity in equity markets
- Establishing liquid debt capital markets and encouraging introduction of debt derivatives
- Promoting commodity and currency trading
- Promoting growth of mutual fund industry
- Striving for revival of NBFI sector
- Promoting growth of insurance products
- Aspiring for fair and transparent corporate sector reporting and sharing of profits with minority stakeholders

Capabilities/Processes

- Amending existing laws and introducing new laws for ensuring a better regulatory environment and protecting investor and public interest
- Ensuring state-of-the-art IT and communication infrastructure
- Building stronger relationships with multilateral agencies and other international corporate and capital market regulators

People

- Ensuring that the performance evaluation system is fair and transparent
- Ensuring HR systems drive employee motivation and create a happy work environment
- Ensuring employees' total remuneration package (financial+non-financial) is in line with the market
- Encouraging employee training and development

Regulatees

- Developing financially strong and well-governed market players having the desire and systems to protect investor interests
- Providing effective regulations that encourage expansion and outreach of mutual funds, stock brokers, leasing, investment banks, modarabas, insurance and other regulatees
- Ensuring fair and transparent regulatory and enforcement practices
- Reducing turnaround time

Regulatees

- Working towards long-term profitable and sustainable operations of the Commission
- Ensuring cost-effective investments in Capex and physical and non-physical infrastructure

A Peacock looking after the young ones

Providing a level playing field

The development of a fair, efficient and transparent regulatory framework lies at the heart of everything we do at the SECP. Our comprehensive strategy encompasses continuation of reforms in the capital markets and corporate sector, deepening of structural reforms through removal of anomalies constraining economic activity, and to provide a level playing field for businesses to grow.

Whom We Regulate and How

Company Law Division

Corporatization and Compliance Department

How	Whom		Responsible department	Number of employees
	Type	Number		
• Supervise and monitor CROs • Grant license to non-profit associations • Perform delegated powers of the Commission • Perform statutory powers of registrar of companies • Process appeals, revision and review applications • Liaise with other jurisdictions • Develop legal framework • Improve facilitation mechanism including e-Services	Private companies, public unlisted companies, single member companies, companies limited by guarantee, non-profit associations, trade associations, foreign companies	61650	Corporatization and Compliance Department	27
• Register companies • Process mortgages/ charges related matters • Issue certified true copies • Provide inspection of companies' record • Issue certificate of commencement of business • Handle alterations to Memorandum and Articles of Association • Grant approvals and permissions • Examine and record statutory returns • Adjudicate defaults falling within the jurisdiction of CRO • Enforce compliance • Dissolve companies • Implement facilitation schemes	Private companies, public unlisted companies, single-member companies, non-profit associations, companies limited by guarantee, trade associations, foreign companies	61650	Company Registration Offices	139

Enforcement Department

How	Whom		Department/ wing	Number of employees
	Type	Number		
• Enforcement of corporate laws • Adjudicate on defaults and process appeals, revisions and review applications, where filed • Conduct inspections and investigations • Grant regulatory approvals • Review of compromises and scheme of arrangements • Propose and/ or amend rules and regulations • Monitor regulatory compliance by companies	Listed companies, unlisted companies and private limited companies with a paid-up capital Rs7.5 million and above (excluding NBFCs and Notified Entities, REIT Schemes, Private Equity & Venture Funds, Modarabas, Insurance companies and stock brokerage houses) and Foreign Companies in Pakistan	492 listed 9733 unlisted companies	Enforcement Department	35

How	Whom		Department/ wing	Number of employees
	Type	Number		
Activities specific to listed companies: • Enforcement of takeover laws • Process for approval and issue of shares otherwise than right, preference shares and shares at a discount • Facilitation to listed companies by granting relaxation from certain rules of further issue of capital	Companies registered in terms of provisions of Sections 42 and 43 of the Companies Ordinance, 1984	492 listed		

Securities Market Division

How	Whom		Department/ wing	Number of employees
	Type	Number		
• Monitoring and surveillance of the trading activity of all the market participants • Ensuring compliance of the trading activities under provisions of laws • Conducting investigations/ enquiries on detection of market abuse or malpractice	• Members of the stock exchanges • Individual investors and Institutional investors	259	Market Monitoring and Surveillance Wing	6
• Examination of returns of beneficial ownership	• Directors, chief executives, managing directors, chief accountants and shareholders with more than 10% shareholding of listed companies	All listed companies	Beneficial Ownership Wing	2
• Compliance of all the prevalent laws	• Members of the stock exchanges • stock exchanges	259 3	Compliance and Inspection Wing	8
• Provision of assistance on various judicial forums and protection of Commission in cases filed by the regulatees	• All stakeholders of stock exchanges		Litigation and Advisory	1
• By issuing and renewing certificates of registration to brokers • By issuing and renewing certificates of registration to agents • Redressing investor complaints received against the brokers, agents and stock exchanges • Monitoring and initiation of actions against unregistered brokerage houses	• Members of the stock exchanges • Agents of the stock exchanges	259 310	Brokers & Agents Registration and Investor Complaints Wing	5

How	Whom		Responsible department	Number of employees
	Type	Number		
Issuance and Offering of Securities: • By approving issuance and public offering of securities • Approving issuance of securities outside Pakistan • Handling complaints against issuers, share registrar and transfer agents, consultants to the issuer/offerer • Issuing rules and regulations, guidelines governing securities issuance and offering, and suggesting amendments therein	Securities Issuers/offerers Securities Issuers/offerers, consultants, share registrars and bankers to the issue/offer	Various Various	Capital Issue Wing	7
• Issuing licenses to special purpose vehicles	Securities Issuers/offerers			
• Providing necessary relaxations where required, in case of issuance of commercial papers and providing necessary relaxations from the requirements of Companies (Issue of Capital) Rules, 1996 and listing regulations of stock exchanges, in case of issuance of securities	Issuers of commercial papers/offerers	Various		
• Providing necessary relaxations from the requirements of Ballotters, Transfer Agents and Underwriters Rules	Underwriters, ballotters and transfer agents	Various		
• Approving Employees Stock Option Schemes	Offerers of the scheme	Various		
• Processing cases of violations of section 18A of the Securities and Exchange Ordinance, 1969	Application of the shares	Various		
Issuing and renewing certificate of registration • Reviewing documents and reports filed by the credit rating companies. Examining of the existing legal framework for credit rating companies • Monitoring of the intermediaries associated with IPOs	Credit rating agencies Share Registrar and Transfer Agents Underwriters	• All companies acting as underwriters in IPOs • All the Companies providing shares register and transfer service		

How	Whom		Responsible department	Number of employees
	Type	Number		
• By issuing and renewing certificates of registration to brokers • Handling investor complaints received against the brokers and the commodity exchange	• Members of the commodity exchange	142	Securities Market Division (Policy, Regulation and Development Department)	2
• By handling all policy and regulatory matters relating to the stock and commodity exchanges, CDC and NCCPL • By giving approval to new products/ systems launch and to other operational activities of these entities • By approving amendments to the regulatory framework of these entities • By issuing and renewing licensing to securities depository and clearing companies • By devising and proposing rules pertaining to these entities for the approval by the Federal Government • By appointing non member directors on the boards of stock exchanges, CDC and NCCPL	• Karachi Stock Exchange • Lahore Stock Exchange • Islamabad Stock Exchange • Central Depository Company of Pakistan Limited • National Clearing Company of Pakistan Limited • Pakistan Mercantile Exchange Limited		Securities Market Division (Policy, Regulation and Development Department)	10

Specialized Companies Division

How	Whom		Responsible departments	Number of employees
	Type	Number		
• License, regulate and devise policies for the mutual funds industry • License, regulate and devise policies for leasing, investment banks and housing finance • Register, regulate and devise policies for the modaraba companies • License, regulate and devise policies for pension funds, REITS and private equity • Conduct off-site monitoring and surveillance on the basis of returns filed by the market intermediaries operating in the NBFCs and modaraba sectors • Conduct risk-based and periodic on-site inspections of all licensed NBFCs and modaraba entities • Undertake enforcement actions based on violations detected during the off-site and on-site processes • Adjudicate on defaults and process revisions and review applications, where filed	Asset management companies	26	Policy, Regulation and Development Department	43
	Investment advisors	23		
	Mutual funds	149		
	Leasing	8		
	Investment finance services	7		
	Housing finance services	0		
	Modaraba companies	40		
	Modarabas	26		
	Pension fund managers	6		
	Pension funds	11		
	REIT management companies	3		
	Private equity companies (PE) and venture capital companies (VC)	3		

Insurance Division

How	Whom		Responsible departments	Number of employees
	Type	Number		
• License, regulate and devise policies for the insurance sector • Conduct off-site monitoring and surveillance on the basis of returns filed by the insurance companies • Conduct risk-based and periodic on-site inspections of the insurance companies • Undertake enforcement actions based on violations detected during the off-site and on-site processes • Adjudicate on violations • Strengthening the legal framework	Life insurance companies	7	Supervision Department Enforcement Department Policy, Development and Regulation Department Legislation Department	22
	Non-life insurance companies	36		
	Takaful operator	5		
	Local reinsurers	1		
	Insurance brokers	6		
	Surveying companies	238		
	Authorized surveying officers	380		

A delegation headed by Mr. Muhammad Ali, the SECP chairman, including representatives of stock exchanges and the corporate community with the President of the Islamic Republic of Pakistan at the demutualization ceremony on December 19, 2012.

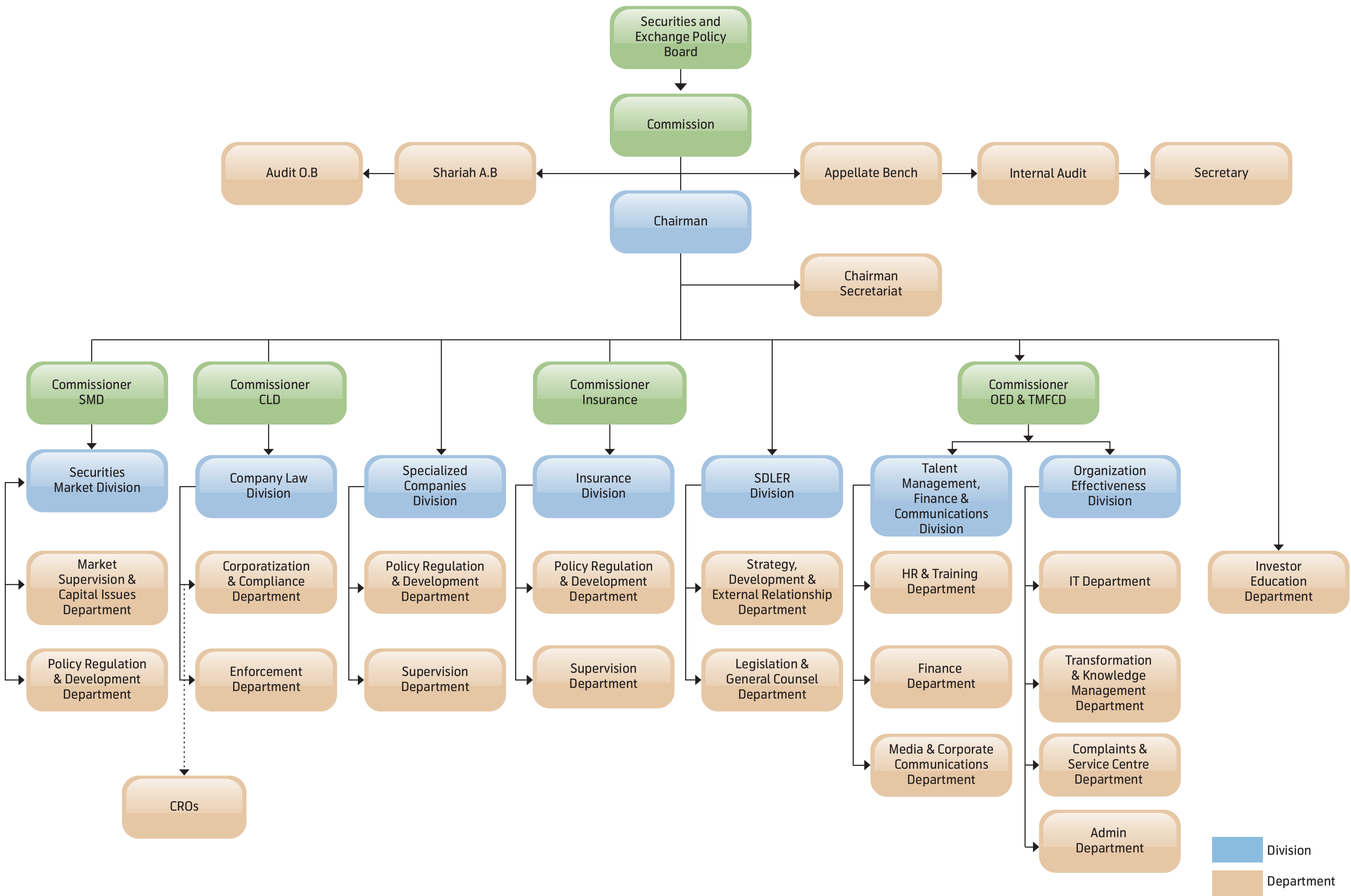
The organised Penguins – an emblem of collectiveness

The SECP strives to ensure that its organizational design and structure remains effective to meet its objectives. We have, therefore, initiated a review to improve our organizational governance and effectiveness.

The Organization

Geese moving in perfect formation, guiding each other in the right direction

Organizational Structure of SECP



Senior Management

1. Bushra Aslam, Secretary to SECP
2. Arshad Javed Minhas, ED, OED
3. Nazir Ahmed Shaheen, ED, CCD
4. Abid Hussain, HOD, TMF&C
5. Akif Saeed, ED, SDERD
6. Imran Ghaznavi, HOD, M&CCD
7. Muhammad Asif Jalal Bhatti, ED, PRDD, SCD
8. Imran Inayat Butt, HOD, MSCID, SMD
9. Javed K. Siddiqui, ED, Internal Audit Dept
10. Ali Azeem Ikram, HOD, Enforcement Dept
11. Musarat Jabeen, HOD, PRDD, SMD
12. Shahid Naseem, ED, Enfrocement Dept, SCD.

1

2

3

1 Company Law Division

Corporatization & Compliance Department

Saila Jamshaid
Muhammad Siddique
Naveed Ihsan
Nazir Ahmed Shaheen
(Executive Director)
Anmol Shahzadi
Muhammad Musharraf
Muhammad Umair
Amna Farrukh

3 Securities Market Division

Policy, Regulation & Development Department

Benazir Nasir
Tariq Naseem
Mussarat Jabeen
(Head of Department)
Sajjad Ali
Muhammad Imran Sajid

2 Company Law Division

Enforcement Department

Maheen Fatima
Bilal Rasul
Ali Azeem Ikram
(Head of Department)
Amna Aziz

4 Securities Market Division

Supervision Department

Najia Ubaid
Muhammad Farooq Bhatti
Hasnat Amhed
Amir Khan Afridi
Imran Inayat Butt
(Head of Department)
Sajid Imran
Saima Shafi Rana
Atif Hameed

4

1

2

3

4

1 Strategy, Development & External Relationship Department

Mirza Shoaib Baig
Khalida Habib
Akif Saeed
(Executive Director)
Syed Umar Yahya
Salman Hayat

3 Supervision Department

Aneel Akhtar Memon
Atif Ejaz
Sharique Siddiqui
Qaisar iqbal
Muhammad Asif Paryani
Mr. Tariq Soomro
(Director)
Aamir Qureshi
Ahmer Majeed Fareedi
Nadeem Rafique
Kashif Ghani
Mirza Aleem Baig

2 Organizational Effectiveness Division

Aamir Waheed
Mirza Arif Baig
Shaukat Mahmood Malik
Zahid Hussain
Imran Saeed
Tanzila Nisar Mirza
Arshad Javed Minhas
(Executive Director)
Faryal Abbasi
Uzma Khan

4 Specialized Companies Division

Rashid Safdar Piracha
Muhammad Afzal
Muhammad Asif Jalal Bhatti
(Executive Director)
Shahid Nasim
(Executive Director)
Jawed Hussain

1

2

3

1 Insurance Division

Shams Uddin Memon
Atif Naseem
Syed Irfan Habib
Kaniz Zehra
Jibran Paracha
Tariq Hussain
Director Insurance
Ameer Hasan Naqvi
Muhammad Junaid
Faraz Malik
Syed Nayyar Hussain
Faraz Malik
Farhat Dawood
Rafaqat Ali
Muhammad Nasir Khan
Faraz Uddin Amjad

3 Media & Corporate Communications Department

Shakil Chaudhary
Sajid Gondal
Muhammad Rabnawaz Awan
Zahra Gandapur
Imran Ghaznavi
HOD, M&CCD
Rana Mustafaa Yousaf

2 Internal Audit Department

Haider Waheed Khan
Director, Internal Audit Dept
Nadeem Khan
Zahida Rafiq
Rizwan-ul-Haq
Tariq Jamal Malik

4 Talent Management & Finance Division

Muhammad Faiz-ur-Rahman
Imran Ahmad
Usman Khalid
Faisal Nawaz
Arshad Mahmood
Babar Majeed Rathore
Ayesha Siddiqa
Mehreen Saeed
Abid Hussain
HOD, TMF
Sidra Jamal

4

A Falcon having an instinct of vigiliance

Corporatization and Compliance Department of the Company Law Division supervises, coordinates, and monitors the working of the CROs. It also licenses non-profit associations, develops legal framework, exercises delegated powers of the Commission and statutory powers of the Registrar of Companies.

Company Law Division

Annual Targets & Achievements – Corporatization and Compliance Department
Company Law Division

Targets

- Working towards a paperless environment and enabling hassle-free online submission of documents
- Introducing electronic inspection of corporate records
- Enabling real time challan verification and online payment
- Enabling new eReports in eServices
- Implementing automatic assigning of documents in eServices
- Developing module for licensing and registering companies under Section 42 in eServices
- Establishing dead record room
- Finalizing Associations-Not-for-Profit (Licensing and Corporate Governance) Regulations
- Holding seminars and workshops on eServices and Corporatization, hold meetings with corporate consultants and stakeholders

Achievements

- A number of modules have been developed in eServices and 'once online forever online' concept has been implemented in a phased manner
- Electronic inspection of corporate records has been introduced and real time challan verification has been enabled
- Two new eReports have been developed
- Automatic assigning of documents has been implemented
- Module for Section 42 companies has been developed and is in testing stage
- Dead record room assignment has been outsourced
- Draft of Associations- Not-for-Profit (Licensing and Corporate Governance) Regulations is in review stage
- Seminars, workshops and meetings with stakeholders are being conducted on regular basis

Highlights

- Launch of Fast Track Registration Services (FTRS)
- 16% increase in corporatization over last year
- Activation/strike off drive is in progress and around 5000 companies are in the process of getting struck off
- Amendments to Second Schedule to the Companies Ordinance, 1984 and Companies (Registration Offices) Regulations, 2003

Targets

- Launching media and awareness campaigns
- Developing 5 new guide/review existing guide booklets
- Developing cost audit guidelines for 5 sectors in coordination with the ICMAP
- Establishing help lines, MCB booths at big CROs, eServices specialized call centre and one stop shop (by pursuing MOF and BOI)
- Training registrars on electronic inspection of records
- Conducting in-house training sessions on company law
- Making cost-effective budgetary provisions for expenses
- Generating revenue through fast-track registration services and increased compliance rate

Achievements

- A number of media and awareness campaigns are being run on a continuous basis
- The target of developing 5 new guide/review existing guides has been achieved
- 3 cost accounting records orders have been issued and 2 are being reviewed by ICMAP
- Help lines established, idea of MCB booths at big CROs has been declined by MCB. The IS&T Department is working on specialized call centre, one stop shop idea is being pursued with the FBR and the World Bank
- Training on electronic inspection has been imparted and in-house training on company law is being imparted on a continuous basis
- Cost effectiveness has been considered while making budgetary provisions for next FY
- FTRS has been launched and increase in compliance rate expected due to launch of CRS/CEES and activation/strike off drive

Company Law Division

The Company Law Division (CLD) comprises of two departments:

- Corporatization and Compliance Department
- Enforcement Department

Corporatization and Compliance Department

Introduction

The Corporatization and Compliance Department (CCD) is responsible for administration of the Companies Ordinance, 1984, and the rules and regulations made there under along with other relevant laws. Its primary functions include registration of companies, regulating their statutory functions, and monitoring of corporate compliance through examination of statutory returns and accounts. These functions are performed by the eight regional offices of the SECP, the Company Registration Offices (CROs). The CCD supervises, coordinates, and monitors the workings of the CROs. Besides, the CCD performs number of other functions, i.e., licensing of non-profit associations, developing legal framework, performing delegated powers of the Commission and statutory powers of the Registrar of Companies, improving facilitation mechanism and processing appeals, review and revision applications.

Key Achievements

During the period under review the CCD embarked upon many initiatives aimed at further enhancing the facilitation mechanism for stakeholders. Some of the key achievements are as below:

Fast Track Registration Services

In order to facilitate prospective promoters, corporate consultants and management of the companies, especially in urgent cases and peculiar situations the Fast Track Registration Services (FTRS) have been recently introduced by the SECP. It has received a healthy response from the corporate sector and is currently available for core processes such as availability of name, incorporation of companies, change of name and charge registration, modification and satisfaction processes.

It ensures swift disposal, i.e., within four working hours and is available for both online and offline cases. The SECP has set an example, at par with international jurisdictions by providing same day fast track company incorporation facility. This initiative is expected to promote corporatization and encourage compliance and in the long run, shall promote investment, healthy growth of the corporate sector and development of economy. The details of the FTRS can be obtained from Circular No. 12 of 2012 placed at the SECP's website.

eServices Project

With the objective of promoting corporatization, transparency, paperless environment and an effective facilitation mechanism, one of the major initiatives taken by the SECP is the eServices project that was launched in 2008. In order to facilitate companies in the eServices regime, the following activities were undertaken during the FY 2011-12:

- Once Online Forever Online Approach

With continuous effort the SECP has managed to take this project to a level that the concept of "once online forever online" has been introduced whereby online filing of subsequent statutory returns has been made mandatory for online incorporated companies registered with effect from May 16, 2012, to fully harness the real benefits of online filing facility and to invoke the true spirit of the eServices regime. This is another step towards paperless environment in the SECP.

- Automatic Verification of eChallans

The automatic verification of eChallans has been introduced for payment of fee to the SECP. The eChallans are being verified on the same day, resulting in more efficient services to our clients. This new procedure is expected to enhance facilitation to the SECP's eServices users and improve the turnaround time in disposal of online applications. The SECP is also working on different online payment modes.

- Automatic Assigning of Documents

The automatic assigning of documents under eServices system has been implemented, which will increase efficiency and result in quick delivery of services to the corporate sector.

- Electronic Inspection of Documents

The electronic inspection of records kept by registrar made available to the general public, whereby they can inspect documents filed by companies, at computers provided at the CROs.

- **Inter-Company Registration Office (CRO) Electronic Inspection Service**

Inter-CRO electronic inspection service has been launched in the spirit of extending facilitation to stakeholders. Through this service, stakeholders can electronically inspect inter-CRO record of companies, which includes scanned/archived version of all recorded/registered documents of companies, i.e., a stakeholder in Islamabad, intending to inspect record of any company registered at the Karachi CRO, can inspect such record electronically at the Islamabad CRO. This service is available at all CRO's across Pakistan. The service is available for all "recorded/registered" documents, received through both online and offline modes of submission. The detailed procedure is available in Circular No 14 of 2012, placed at the SECP's website.

- **Helplines**

Helplines for eServices have been established and focal persons have been designated.

Development of Legal Framework

Issuance of Cost Accounting Records Order

The SECP has notified Special Cost Accounting Records Order for the fertilizer industry and drafted Synthetic Rayon, Power Generation and Automobile Cost Accounting Records Orders for the companies engaged in these sectors.

In order to bring uniformity to the cost records and cost audit reports, the SECP has developed the draft order in consultation with the ICMAP. The cost audit can only be an effective regulatory tool when the cost records are properly prepared and cost audit reports are made on a uniform format for a particular sector. The SECP strives to make right regulations in the interest of the industry, as a whole and also in the interest of the other stakeholders. The cost audit can provide relevant and credible cost and revenue data to the stakeholders to support their decisions. The cost audit mechanism acts as a measure of efficiency and performance. It can serve as an important tool for effective enterprise governance, competitiveness and strengthening the regulatory mechanism. It is emphasized that regulatory apparatus at the SECP intends to foster efficiency and transparency, thereby promoting sustainable growth.

Draft Public Sector Companies (Corporate Governance) Regulations

The Draft Public Sector Companies (Corporate Governance) Regulations have been issued to extend the provisions of the Code of Corporate Governance to the public sector (state-owned) companies. The SECP is actively working as a member of Task Force of Ministry of Finance on Corporate Governance of Public Sector Enterprises.

Regulatory Actions

Processing of Application for Grant of License to Associations Not-for-Profit under Section 42

During the financial year 2011-12, 41 licenses were issued to non-profit associations under Section 42. The SECP ensures quick disposal of applications seeking licences to non-profit associations.

Amalgamations and Mergers of Companies

During the year, in response to the SECP's oral and written representations, the courts approved the amalgamation in respect of the following cases:

1. Naseer Tanveer Jehangir (Pvt.) Limited into Premier (Pvt.) Limited
2. Bayer Crop Science (Pvt.) Limited into Bayer Pakistan (Pvt.) Limited
3. T.S. (Pvt.) Limited into Premier (Pvt.) Limited
4. N.A. Promoters (Pvt.) Limited into Premier (Pvt.) Limited
5. Hazara Phosphate Fertilizers (Pvt.) Limited into Agritech Limited
6. Wire Products (Pvt.) Limited into Lahore Cables & Engineering Company (Pvt.) Limited
7. Information Management (Pvt.) Limited into Ovex Technologies (Pvt.) Limited
8. Ghani Southern Gases (Pvt) Limited into Ghani Gases Limited
9. Newage Chemical (Pvt) Limited into Newage Cables (Pvt.) Limited

Approvals and Permissions

Under the Ordinance, 73,390 applications seeking regulatory approvals were received and after due consideration necessary approvals were granted by the SECP or the registrar (Table 1).

Capital Issues

(a) Issue of Shares other than Right

Approval was granted to three companies for issuance of shares other than right to existing shareholders in terms of proviso of sub-section (1) of Section 86 of the Ordinance amounting to Rs3.1 billion.

(b) Issue of Shares with Varied Rights and Privileges

One company obtained the approval for the issuance of 300,000 class B ordinary shares of Rs10 in terms of Rule 5 (1) of the Companies' Share Capital (Variation in Rights and Privileges) Rules, 2000.

(c) Issue of Preference Shares as other than Right

Approval to three companies was granted in terms of proviso of sub-section (1) of Section 86 of the Ordinance and Rule 5 (1) of the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000 amounting to Rs133.7 million.

Monitoring and Enforcement

Investigations into Affairs of Companies and Special Audit

The SECP processed 10 applications under Section 263 of the Ordinance for investigation of affairs of the companies that were allegedly not being managed in accordance with the law.

Adjudication of Cases under the Ordinance

The Registrar of Companies and the CROs adjudicated 1,822 cases of violation of various provisions of the Ordinance and punitive actions were taken against errant companies.

Dissolution of Companies

The SECP disposed of 1056 cases of dissolution of companies. Of these, 399 companies wound up voluntarily and 657 companies were struck off from the register under section 439 of the Ordinance. The dissolved companies had a cumulative paid-up capital of Rs1.5 billion.

Protection of Stakeholders' Interest

The SECP received 50 complaints from different stakeholders. Of these, 49 complaints were disposed of during the year while only 1 complaint was pending at the close of the year. (Table 2).

Disposal of Appeals

The SECP received 47 appeals under the Ordinance. Of these, 44 appeals were disposed of while 3 appeals were pending at the end of the period under review. (Table 3).

Developmental Activities

Measures to Promote Corporate Compliance

- **Activation Drive**

In order to increase the compliance rate, the SECP launched an extensive activation campaign to activate defaulter companies and strike off defunct companies. The defunct companies, which are being struck off, have not remained compliant in filing of annual returns in previous years. Up until now, almost 5,000 companies are in the process of striking off, while further scrutiny to take more companies under strike off action is underway.

- **Launching of Schemes**

Companies Regularization Scheme (CRS) and Company Easy Exit Scheme (CEES) have been launched with effect from July 2, 2012 to November 30, 2012, to provide an opportunity either to regularize or take a benefit of easy exit by the companies. The purpose behind this initiative is to provide both facilities to the companies at the same time, either to get their defaults regularized under the CRS by making compliance, or on the other hand, avail the exit facility under the CEES if the company is defunct, not carrying any business or not in operation and intends to cease its existence.

The CRS provides defaulter companies an opportunity to file their overdue statutory returns and annual accounts with reduced additional filing fees and also absolves the defaulter companies from penalties imposed on filing of overdue documents. Through CRS, the SECP intends to enhance compliance rate.

The CEES, on the other hand, allows the companies having no assets or liabilities and not carrying on any business, to avail easy exit facility without undergoing the cumbersome winding up procedure.

Facilitation Measures

- **Facilitation Counters at Bahawalpur and Rahim Yar Khan Chambers of Commerce and Industry**

The SECP has established facilitation counters at the Bahawalpur and Rahim Yar Khan Chambers of Commerce and Industry to facilitate business community and enterprise in the region, on the directives of the Prime Minister's Secretariat.

- **Facilitation Extended in Filing of Annual Returns and Annual Accounts**

Companies were facilitated on the due dates of filing of annual returns and annual accounts. Advertisements, public notices and press releases for creating awareness were issued. The Chambers of Commerce and Industries (CC&Is) were engaged to extend facilitation to corporate sector, create awareness and disseminate information to members. The CRO's remained opened till late hours on the closing date and the last date for filing Form 29 was also extended to provide maximum facilitation for collection of these documents. Special counters were established at bank branches, the CROs and CC&Is.

- **Media Campaigns**

The extensive advertising campaigns were run to create awareness on annual returns filing, Fast Track Registration Services, Companies Regularization Scheme, Company Easy Exit Scheme and to curb illegal business activities.

- **Promoters' Guide in Arabic**

The promoters' guide was translated into Arabic to facilitate foreign companies and investors having Arabic as their native language.

- **Meetings with Corporate Consultants**

Regular meetings with corporate consultants/intermediaries were held at the CROs to obtain their feedback for improvement in various areas mainly operational working of the CROs.

- **Creating Awareness**

More than 30 awareness seminars and workshops on benefits of corporatization, eServices, and corporate compliance were conducted in a number of cities. These seminars and workshops were widely attended and an overwhelming response was received.

- **Quality Assurance**

ISO 9001: 2008 certification for the CROs in Karachi, Lahore and Islamabad is successfully maintained after surveillance audit by external auditor. The certification is a useful tool in improving the service quality.

- **Liaison with Board of Investment**

The SECP in consultation with the BOI has streamlined the procedure for security clearance for registration of foreign companies and local companies having foreign nationals and investments.

- **Facilitation to Hajj and Umrah Operators**

The SECP extensively facilitated Hajj and Umra Operator companies during their enrolment season.

Future Plans

eServices Project

- **Mandatory Online Filing in a Phased Manner**

The SECP is considering making online submission of documents mandatory, in a phased manner, to boost the online services.

- **Online Payment System**

In order to further enhance the services' delivery to the corporate sector, the option of direct transfer from the depositors' MCB accounts to the SECP account in case of fee for online applications, is being considered for implementation. Furthermore, the prospects for online payment system are being explored.

- **Modules under eServices**

eServices modules for voluntary winding up, licensing under section 42 for non-profit associations and adjudication are being developed.

Development of Legal Framework

- **Draft Associations Not-for-Profit (Licensing and Corporate Governance) Regulations**

The draft regulations for non-profit associations will be finalized which contain the regulatory framework, requirements and specifically the provisions of the code of corporate governance.

Public Facilitation

- **One-Stop-Shop**

The idea of establishing one-stop-shop is being explored, providing facilities starting from registering a company to formally setting up its business under one roof. A concept paper has been shared with the Ministry of Finance and the World Bank.

- **Launching Low-Fee Company Concept**

In order to encourage corporatization and give incentives to non-corporate entities to enter into the corporate sector, a simplified/low fee company may be introduced.

Note:

Important statistics/data relavent to Corporatizaiton and Compliance Department is given in the Statistics section of this report. Approvals and permissions data has been given in Table 1, complaints dealt during the period under review in Table 2, disposal of appeals in Table 3, year-wise company incorporation in Graph 1, province-wise registration of companies in Graph 2, number of companies by type (Registered under the Companies Ordinance, 1984) in Table 4, capitalization breakdown as of June 30, 2012 in Table 5, sector-wise distribution (Limited by shares) in Table 6, non-profit associations in Table 7, foreign companies in Table 8, and total number of foreign companies in graphical format in Graph 3.

Annual Targets & Achievements – Enforcement Department
Company Law Division

Targets
- Oversight of companies' regulatory records
- Publishing FAQs, guidelines etc. for investors on corporate education
- Enhancing SECP-ICAP coordination for improved auditing process and QCR rating process
- Industry specific cost audit and QCR for cost auditors
- Working with the ICAP for improvement of reporting standards

Achievements
- Examined 837 accounts, cases initiated 501, cases concluded 431
- Guidelines on CSR and members' meetings/resolution are being finalized
- Secured representation on different committees
- Notified ESC's to appoint QCR rated auditors
- Notified cost accounting records for Fertilizer industry
- Unified reporting framework for IPPs

Highlights
- Revival of the SECP-ICAP Coordination Committee
- Notified industry specific cost accounting records
- Notified listed companies to maintain website and mention NIC on dividend warrant
- Issued circular for holding board meetings abroad and submissions of AGM/EDGM through email

Targets
- Special assignments/developmental activities
- Scrutiny of regulatory returns and complaints
- Regulatory approvals
- Revisiting and amending Takeover Regulations
- Regulations u/s 208 of the Ordinance
- Placement of accounts on websites
- Enforcing website requirement for companies
- Preparing whistleblowing laws

Achievements
- Notified mandatory requirement to mention NIC on dividend
- Notice of meetings were reviewed and 385 complaints were resolved
- Granted 125 regulatory approvals
- Stakeholders' comments on draft amendments have been compiled
- Regulations for inter-corporate financing have been notified
- Amendment to the law has been proposed
- Notified listed companies to maintain websites
- Concept paper for whistle blowing laws has been prepared

Enforcement Department

Introduction

The Enforcement Department of the SECP is entrusted with the responsibility to ensure compliance with the applicable corporate laws, rules, regulations, accounting, financial reporting and auditing standards, by companies listed on domestic stock exchanges, public unlisted companies, private companies having paid-up capital of Rs7.5 million and above, companies formed under Section 42 of the Companies Ordinance, 1984 (except insurance companies, non-banking financial companies, modarabas and stock exchanges) and foreign companies and their statutory auditors.

In pursuit of its objectives, the department focuses on safeguarding the shareholders' interests and promoting good corporate governance by improving the standards of financial reporting and disclosures by companies. The department basically takes two types of actions/measures to achieve its goals and objectives, i.e., regulatory measures and enforcement actions.

Performance Review

The department strives to promote transparency in the presentation of the financial statements and the active vigilance and stringent corporate discipline enforced by the department resulted in improved corporate compliance by the companies. In addition, the department, under its regulatory powers, also scrutinized various applications of companies and accorded the approvals and relaxation from certain provisions of laws and rules, in those cases, where requisite conditions had been met.

Facilitation and Regulatory Approvals

Scheme of Arrangements

The SECP has been facilitating companies to strengthen the capital base of companies and to achieve economies of scale. The consolidation within the corporate sector will enhance its capacity to deal with the systemic risk and to meet global challenges. The SECP has also constituted an interdepartmental committee for timely disposal of the notices received from the courts regarding schemes of reconstruction and amalgamation of companies. The department ensures that the schemes of arrangement proposed by companies are not prejudicial to the interests of minority shareholders. During the year under review, the department reviewed 12 schemes of arrangements of listed and unlisted companies and provided comments to the higher courts.

Capital Issue (Listed Companies)

The companies can raise further capital by way of right and/or bonus issues without the approval of the SECP. However, if the companies want to issue right share more than once in a year or want to raise their capital without the offer of right shares, they are required to obtain permission from the SECP. A company limited by shares can issue more than one kind of shares having different rights and privileges under the Ordinance. During the year, the department received 23 applications for issuance of capital. These applications were disposed of as follows:

(i) Issue of Shares Otherwise than Right

Six applications were received from companies requesting permission to issue shares otherwise than rights to the existing shareholders. Four companies were allowed to issue shares as per their applications, which were worth Rs2.434 billion. However, after due consideration, consent for partial increase in capital was given to one application and the matter related to issuance of its remaining proposed capital is in process.

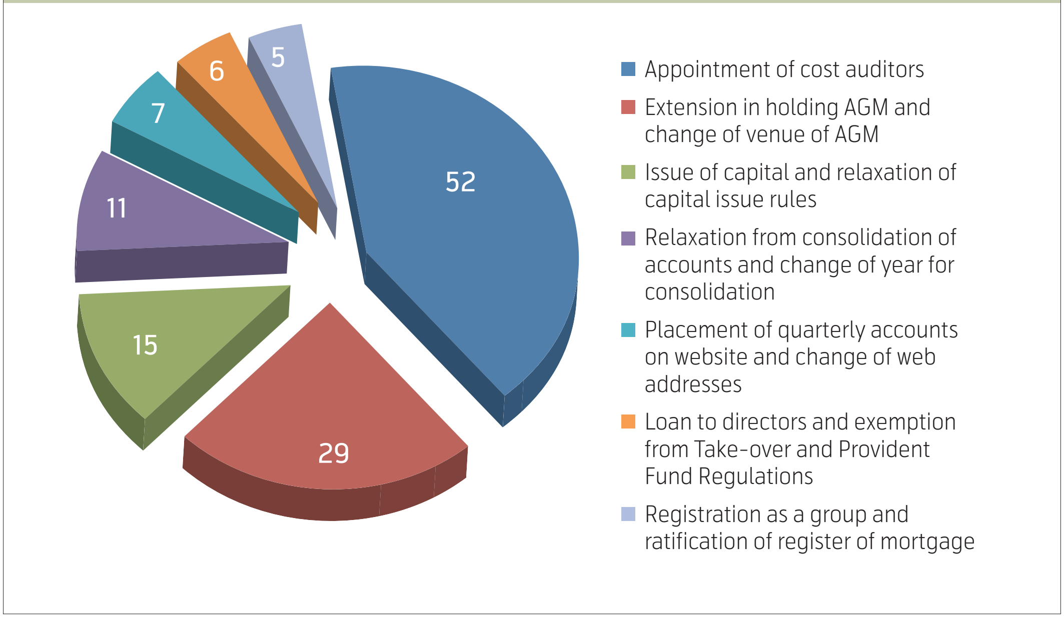
(ii) Issue of Preference Shares

During the year, two applications for issue of preference shares to existing shareholders were received from listed companies. The SECP allowed both companies to issue in aggregate 272.101 million preference shares at Rs10 each.

(iii) Relaxation of Rules

During the year under review, 11 listed companies applied for relaxation from the requirements of the Companies (Issue of Capital) Rules, 1996 ("Rules"). The Commission after comprehensive examination and keeping in view the circumstances of cases, relaxed the requirements of law for nine companies enabling them to raise capital; whereas remaining two applications are under process.

REGULATORY APPROVALS - 2011-12



Other Regulatory Actions/Approvals

1. The appointment of 52 cost auditors in the matter of listed companies was approved during the year under Companies (Audit of Cost Accounts) Rules, 1998 in respect of industries including vegetable ghee and cooking oil, sugar and cement.
2. Extension in time to hold annual general meetings was granted to 25 listed companies. Four companies were allowed to hold their AGMs at locations other than their registered offices, as allowed in the Ordinance.
3. The exemption from filing the consolidated accounts along with the standalone accounts was provided to 9 companies. Two applications for change of financial year, postponement of annual audited accounts and annual general meeting to coincide the financial years of parent and subsidiary company were also processed and approved.
4. Currently, 261 listed companies have obtained approval from the SECP to place their quarterly accounts on their websites instead of transmitting these by post in order to ensure that material information is available to shareholders enabling them to make informed decisions. Six more companies were permitted to place their quarterly accounts on their websites. A company was also allowed to change the address of its website.
5. Four listed companies were allowed to extend loan facility and advance house rent to their directors.
6. The SECP issued certificate of registration as a group to 2 companies under Group Companies Registration Regulations, 2008.
7. Relaxation from Regulation 19(2)(d) of the Listed Companies (Substantial Acquisition of Voting Shares and Takeover) Regulations, 2008 ("Takeover Regulations"), was granted to an acquirer/applicant.
8. The SECP granted exemption to a company from Rule 3 of Employee's Provident Fund Rule, 1996, which requires certain conditions to be met before making investment in listed securities.
9. Approval was accorded to 2 listed companies to rectify their register of mortgage while extension in time has been granted to a listed company to file its modification of charge.

Monitoring and Enforcement Actions

During the year under review, audited financial statements of 837 companies were examined and 709 companies were advised/ directed to provide explanations with regard to various issues observed during the examination/review. The breakdown of actions taken against the companies on account of various defaults is given as follows:

Administrative Measures 2011-12	
Examination of annual financial statements	837
Cases initiated	501
Cases concluded	431
Warnings based on examination of audited accounts	106
On-site inspections and investigations initiated	15
Companies directed to hold overdue AGM	9

Inspection of the Affairs of Companies

The department authorized onsite inspection of books, records and papers of 10 companies. The inspection proceedings against 6 companies were concluded within the period, whereas proceedings initiated against other 4 companies are in process. The cause of such actions primarily emanated from reasons of adverse audit opinions of statutory auditors, unlawful inter-corporate financing, non co-operation on part of companies in response to the SECP's call for information, non-confirmation of the balance of assets and liabilities of the companies, and unauthorized disposal of fixed assets. Such inspections are the fact finding exercise undertaken by the department under Section 231 of the Ordinance on a routine basis to ascertain the state of affairs of the companies within its purview. Here is the summary of inspections concluded during the year:

- The inspection proceedings against a company were initiated on account of violations observed pertaining to unlawful inter-corporate financing, inappropriate re-classification of comparative figures of transactions with related parties and non-maintenance of statutory record. Based on the findings of inspection, appropriate proceedings were initiated against the company and the auditor of the company.
- The inspection proceedings were initiated against a company, which had failed to treat the surplus on revaluation of fixed assets in accordance with the provisions of the Ordinance and the auditor of the company provided disclaimer of opinion on accounts of non-confirmation of the balances of assets and liabilities of the company. The appropriate proceedings under various provisions of the Ordinance have been initiated against the company based on findings of inspection.
- The inspection proceedings were initiated and concluded against a company on account of misstatements in the accounts and non-compliance with the provisions of the Ordinance with regards to appointment of statutory auditor. The proceedings initiated in this regard have been concluded with a punitive order.
- The inspection of books of accounts of a listed company was conducted to scrutinize certain significant issues revealed from examination of annual accounts for the year ended June 30, 2011. The examination of half yearly accounts further revealed non-booking of impairment in respect of material amounts of past due foreign unsecured debts, sale of assets on loss and large inventory write-offs. The information/records obtained during the course of inspection has revealed that company's debtors include associated concerns, which fact has never been disclosed anywhere in the accounts or other communication. In order to procure further conclusive evidence and scrutiny of company's transactions with its associates investigation, proceedings are being initiated.
- The inspection initiated against a company was concluded during the year and the matter was linked with the proceedings initiated under the provisions of the Takeover Ordinance as per the orders of the honourable court.
- An inspection of the books of account and books and papers of a private limited company, based on the examination of the annual audited accounts for the year ended on June 30, 2010, and 2011, was conducted. Subsequently, on the basis of the findings of the inspection, an Investigation Order under Section 263 of the Ordinance has been passed and a chartered accountant firm has been appointed as an Inspector to investigate the affairs of the company.

Investigations

The Ordinance empowers the SECP to investigate the affairs of the companies if it so deems appropriate by appointing upto two competent persons as inspectors. During the year under review, 5 investigation proceedings were initiated. Here is a summary of these investigation proceedings:

- Investigation proceedings were initiated against a company upon receipt of an application from an existing and a former director of the company who alleged that, the affairs of the company are not being managed according to the sound business practices. Further, the members of the company have been deprived of the reasonable return and access to the information with regards to the affairs of the company. The proceedings initiated are in the process of finalization.
- The investigation proceedings were initiated against a company on account of sale of substantial assets, creation of significant provisioning against stocks for the preceding two years, decline in profitability and operations of another company on the premises of the company. The proceedings are in process.
- An investigation was initiated against a company that has been depriving its members of a reasonable return, non-provision of all the statutory information with respect to its affairs, worsening financial condition, and not managing the affairs of the company in accordance with sound and prudent business practices. The investigation in the matter is in progress.
- The investigation proceedings were initiated against a company on account of closure of operations for the last couple of years and failing to pay dividend to its shareholders. Furthermore, the auditor failed to physically verify stocks of the company and the affairs of the company were not managed inconformity with the sound and prudent business principles. The proceedings are being finalized.
- On the basis of non-holding of AGMs, inappropriate disclosure of plant and machinery in the accounts and running the affairs of the company in a non-prudent manner, etc., an order was passed to investigate the affairs of a private limited company after receiving an application from a foreign shareholder, holding 50% shares of the company, through its nominee representative.

Inter-Corporate Financing

While inter-corporate financing constitutes a major source of funding for productive investment and capital formation, management and sponsors of companies have abused this channel for transfer of funds to their undue benefit. In order to curb this misuse of funds, the Ordinance has placed certain restrictions on investments in associated companies. The SECP vigilantly monitors inter-corporate financing between the associated companies to ensure transparent corporate governance practices to curb the unauthorized utilization of funds by the management and sponsors of the companies for their own benefit. Cases were identified, where investments were either made in associated companies without approval of shareholders or free of return.

During the year under review, 32 cases relating to unauthorized inter-corporate financing between the associated companies were dealt with. The chief executives and directors of companies were penalized in 20 proceedings, while 12 proceedings were concluded with warnings.

Making False/Incorrect Statements in Documents Required under the Ordinance

During the year under review, 29 cases with regards to misstatements in the statutory documents filed by companies were concluded. Penalty was imposed in 23 proceedings while warnings for future compliance of the law were issued in 6 cases.

Actions Against Auditors

The auditors have a significant responsibility towards the shareholders of companies. It is essential that auditors discharge their responsibilities with due care, integrity and professional competence to give an independent opinion on financial statements. The department has initiated penal actions against the statutory auditors of 65 companies, who failed to act in conformity with the statutory framework. The auditors are required to give an opinion on the state of affairs of companies. However, the auditors reports issued by them either failed to bring out material facts about the affairs of companies or contained untrue statements.

Besides imposing fine on auditors, they were advised to discharge their responsibilities with due care and professionalism to give an independent and objective opinion on financial statements in future. The details of actions taken against the auditors were also shared with the Institute of Chartered Accountants of Pakistan ("ICAP") during the SECP-ICAP Coordination meeting held in April 2012.

Furthermore, Section 254 of the Ordinance sets out the eligibility criteria for appointment as statutory auditors of companies. The SECP has observed that a number of unlisted companies have appointed unqualified persons as their statutory auditors. These cases were referred to CDC Department for initiating necessary penal proceedings.

The department has also finalized proceedings against auditors of two listed companies, who were not qualified for appointment in terms of requirements of the Code of Corporate Governance (CCG). The CCG requires that listed companies should appoint only those auditors, who have been given a satisfactory rating under the Quality Control Review ("QCR") programme of the ICAP. In the instant cases, the Quality Assurance Board ("QAB") of ICAP has removed the name of the CA firm from the list of QCR rated auditors prior to its appointment as statutory auditors of the listed companies.

In addition, 48 cases of non-compliance with the provisions of the Ordinance were concluded against the auditors of listed, unlisted and private companies. Penalty was imposed in 41 cases, whereas, 6 cases were concluded with warnings by obtaining assurance for future compliance of the law. Additionally, a matter against an auditor was referred to the ICAP being the licensing and registration authority for breaching the agreed upon procedures laid down for the auditors.

A complaint addressed to the ICAP president with a copy to the SECP against certain individuals, who were using fake names of chartered accountants as Partners and conducting audit and issuance of the audit reports on their behalf, was received. The Enforcement Department felt concerned about the quality of reports issued by the auditors and initiated action under the relevant provisions of the Ordinance and also forwarded the complaint for necessary action to the ICAP. The ICAP has also initiated action in this regard.

Non-Preparation and Submission of Consolidated Financial Statements

Actions were initiated against directors and officers of 14 companies, who failed to prepare and attach consolidated financial statements with their standalone annual audited financial statements as required under the Ordinance. The directors of 9 companies were fined while the directors of 5 companies were reprimanded.

Enforcement Actions Taken under Different Statues 2011-12

Particulars	Companies Ordinance, 1984	Take-over Ordinance	Capital Issue Rules	Cost Audit Rules	Total
Cases initiated	484	6	3	8	501
Cases concluded	414	6	3	8	431
Penalty imposed	263	1	2	3	269
Warnings/ Directions issued	151	5	1	5	162

Irregularities in Provident Fund

The Ordinance requires the companies to deposit the employees and employers' contributions to provident fund in a separate bank account and has prescribed the investments into which this money should be invested; whereas in case the company has formed the trust for provident fund, the amount of provident should be paid by the company to the trust within time prescribed by the Ordinance.

During the year under review, the department initiated 35 actions against directors of companies and trustees of provident fund trusts for committing irregularities in employees' provident funds. Penalty was imposed in 25 cases while strict warnings were issued in 11 cases after obtaining assurance of future compliance of the Ordinance. In addition, directions were also given to repay the contribution and loans due to respective funds along with accrued mark-up thereon.

Surplus Arising out of Revaluation of Fixed Assets

During the year under review, 9 cases against the directors of the companies were concluded wherein, the companies failed to transfer an amount equal to incremental depreciation from surplus on revaluation of fixed assets to un-appropriated profit/accumulated loss through statement of changes in equity to record realization of surplus to the extent of the incremental depreciation charge for the period. Penalty was imposed in 6 cases whereas 3 proceedings were concluded with strict warnings.

Irregularities in Utilization of Amount of Security Deposits Received from Dealers

The Ordinance requires the companies not to utilize any money received as security or deposit, except in accordance with a contract in writing; and deposit or keep all the money so received in a special account with a scheduled bank. The proceedings against 15 companies were concluded for violation of the aforesaid provision of the law wherein, penalty was imposed in 10 cases while warning was issued to chief executive and directors of 5 companies after obtaining assurance of strict future compliance of the law.

Enforcing Compliance with Provisions of Ordinance

The SECP may direct the company and any officer of the company, as the case may be, to make good the default or undo any irregularity/violation of any provision of the law which has been observed. Proceedings were concluded against 4 companies in this regard. Directions were issued to 2 companies, while 2 proceedings were concluded with warning.

Authentication of Balance Sheet

Fourteen proceedings were concluded during the year under review against the directors of companies wherein they failed to authenticate the balance sheet and profit and loss account in accordance with the requirements of the Ordinance. Nine proceedings were finalized with imposition of penalty while warnings were issued in 5 instances.

Improper Issue, Circulation or Publication of Balance Sheet or Profit-and-Loss account

The SECP closely reviews annual audited accounts filed by the companies to ensure their completeness and initiate appropriate proceedings where complete set of financial statements as required under the Ordinance are not filed by the companies. Consequently, 52 proceedings in this regard were concluded during the year. Penalties were imposed in 30 cases while 22 proceedings were concluded with warning after obtaining assurance of full future compliance with the applicable provisions of the law.

Appointment of Independent Share Registrar

Four proceedings were finalized against the listed companies that failed to appoint independent share registrars to facilitate their shareholders. One of the cases was concluded with penalty, while warning was issued in three cases.

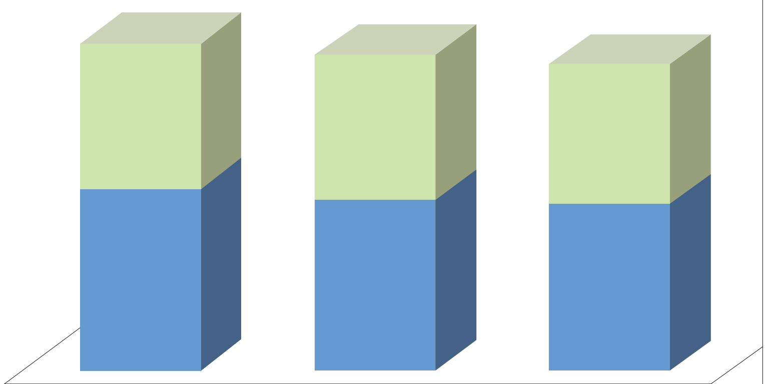
Moreover, the SECP is empowered to ensure compliance with its directions given to the management of the company to undo non-compliances of law. In case of non-compliance of directives of the SECP, punitive actions are initiated against the company or any officer of the company failing to adhere to the directions. A proceeding was concluded wherein the company was penalized for not adhering to the directions of the SECP with regard to appointment of independent share registrar.

Circulation of Quarterly Accounts

Listed companies are required by law to file their quarterly accounts with the SECP. The untiring efforts of the SECP with regards to improvement of compliance level relating to filing of accounts by the companies is paying off as the compliance level has reached 82% of the total listed companies. A total of 1,258 quarterly accounts were received during the year under review out of 1,527 accounts.

During the year under review, 24 proceedings were concluded against the companies which failed to file their quarterly accounts within the prescribed time period. Penalties were imposed in 15 proceedings, whereas 9 proceedings were concluded with stern warnings.

QUARTERLY ACCOUNTS: FILING STATUS 2011-12



	1st Quarter	2nd Quarter	3rd Quarter
Accounts Submitted	418	425	415
Accounts Due	522	505	500

Non/Late-Holding of Annual General Meetings ("AGMs") and Direction to Companies to Hold Overdue GMs

The AGMs provide a forum to the shareholders of the company to participate in the affairs of the company and to consider and approve significant matters relating to the management and performance of company, including approval of annual accounts, declaration of dividend, appointment of auditors, and election of directors etc.

Considering importance of shareholders' meetings and in view of its duty to protect shareholders' rights, the department pays special attention to ensuring that the AGMs are held in timely manner so that shareholders are able to exercise their voting rights at general meetings on all important issues. The department therefore takes a strict view of non- holding of shareholders' annual meetings. During the year 4 companies which failed to hold the AGMs within the prescribed time period have been penalized with warning to hold their meetings in a timely manner in future.

The SECP issued directions to 9 companies to hold their overdue AGMs. Further, a proceeding was concluded with penalty where a company failed to comply with the directions of the SECP to hold overdue AGM.

Non-Submission of Notices of Annual General Meeting (AGMs) and Non-Disclosure of Material Facts

During the year under review, 6 cases relating to non-submission of notices of AGMs to the SECP and non-disclosure of material facts along with the notices of AGM were dealt with. Penalty was imposed in 3 cases, while 3 proceedings were concluded with warnings.

Failure to Communicate the Announcement of Decision of Right Share

The proceedings against 3 companies were concluded wherein companies failed to communicate the decision to issue right share to the SECP and to the stock exchanges. Penalty was imposed in 2 cases while warning was issued to a company.

Misuse of Powers by Directors

In order to promote better corporate governance practices and to safeguard the interest of shareholders, the SECP actively monitors the use of powers given by the Ordinance to directors of the company and take appropriate actions, where misuse of powers by the directors is identified. During the year under review, proceedings against the directors of 14 companies were concluded in this regard. Nine proceedings were concluded by imposing penalty, while warnings were issued to the directors in 5 proceedings.

Meetings of Board of Directors

Directors of 5 companies have been penalized for their failure to comply with the mandatory provisions of the Ordinance regarding disclosure of interest, quorum of meeting, participation in board meetings where a business in which the directors have interest. One proceeding was concluded after issuing a strict warning.

Non-Holding of Election of Directors within Prescribed Time Period

Companies are required by law to elect the directors in a general meeting within the statutory time period. The SECP ensures compliance from the companies with the laid down procedures for the election of directors, and takes cognizance if companies fail to abide by the relevant provisions of the Ordinance.

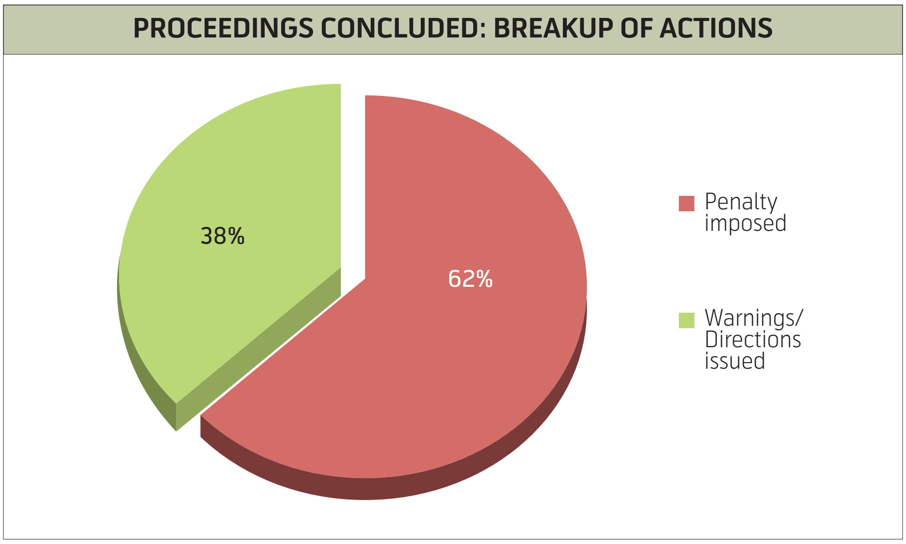
The cases of non-holding of election of directors within the statutory time period were dealt with during the year under review. The directors of a company were penalized in 1 case, while in the other 2 cases penalty was imposed on the chief executives of the companies.

Disclosure of Interest by Director and Participation/Voting in Proceedings of Directors

The directors of a company are required under the Ordinance to disclose their interest in a contract or agreement of a company at a meeting of the directors. Eight proceedings were concluded against the directors of companies breaching the relevant provisions of the Ordinance. Penalty has been imposed in 6 cases, while warning was issued to directors of 2 companies.

Non-Circulation of Abstract on Increase in Chief Executive's Remuneration in the Directors' Report

The proceedings were concluded in the matter of 10 companies failing to abide by the provisions of the law regarding the disclosure of terms of appointment of the chief executive or variation thereof in the directors' report as well as circulation of the same to the shareholders. Three proceedings initiated in this regard were concluded with penalty, whereas, 7 other cases were concluded with warning.



Engagement of Chief Executive in a Competing Business

The proceeding was concluded with a penalty in a case where chief executive of a company was engaged in a business, which was in competition with the business of the company in which he is chief executive.

Late Filing of Cost Audit Report and Non-Submission of Applications by Companies for Appointment of Cost Auditors

Companies engaged in the business of vegetable ghee and cooking oil, sugar and cement industries are required by law to prepare and file the duly audited cost accounts with the SECP. The aforesaid companies are required to obtain prior approval of the SECP for the appointment of cost auditor. Eight proceedings were concluded against the listed companies during the year for the violation of the law wherein, penalties were imposed in 3 cases, while 5 cases were concluded with warnings.

Actions under Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002 ("Takeover Ordinance")

The department actively oversees the transactions relating to substantial acquisition of shares of listed companies. With a view to providing a fair and equal treatment to all investors as well as a transparent and efficient system for substantial acquisition of voting shares and takeovers of listed companies, the department initiated instant actions against the companies/acquirers, that violated the provisions of the "Takeover Ordinance". During the year under review, 7 instances of non-compliances with the provisions of the "Takeover Ordinance" were identified. The proceeding in 1 case was concluded with penalty, while warnings were issued in 3 cases. However, considering the merits of cases, 2 companies were directed to take appropriate measures to proceed with their plan of acquisition.

Winding up of Companies

The Ordinance clearly lays down the circumstances in which a company may be wound up. The department, in exercise of its power under the Ordinance, initiated the winding up proceedings against 2 companies that had failed to hold the annual general meetings for two consecutive years. The proceedings have been concluded and winding up orders have been issued in this regard.

Investors' Grievances

The SECP has been encouraging the stakeholders to voice their concerns/complaints and blow the whistle where possible violations/contravention of law by the management of any company is observed. Therefore, the investors' grievances are considered and addressed on priority and in a timely manner in order to safeguard their interest.

During the year under review, 385 complaints from various shareholders were resolved. They were mainly related to non-receipt and non-encashment of dividend warrants, delay/non-transfer of shares and issuance of duplicate shares, non-receipt of annual and interim accounts, inappropriate deduction of zakat and related to other miscellaneous matters including non-holding of AGM, non-circulation of notice of meeting etc. The immediate and appropriate actions were taken on all such complaints received. The table hereunder summarizes the status of the complaints at the beginning of the year, received and resolved during the year and remained in progress during the year under review:

Complaints Status 2011-12	
In progress at start of the period	30
Received during the period	372
In progress at the end of the period	17
Total complaints resolved during the period	**385**

Non-Filing of Annual Audited Accounts by Non-Listed Companies

The SECP has been continuously monitoring and striving to improve the filing status of annual audited accounts of unlisted companies with the relevant registrar. In case of non-filing of annual audited accounts, appropriate proceedings are initiated against the non-filing companies. During the year under review, proceedings against 65 unlisted companies for non-filing of their annual audited accounts with the registrar of companies were concluded. Penalty was imposed in 52 cases, while strict warnings for future compliance of the law have been issued in 13 cases.

Application for Revision of Orders

The Ordinance provides a window to the aggrieved person who may file an application with the SECP within a prescribed time period for the revision of an order passed against him. During the year under review, 12 applications for the revision of orders were received and processed. Considering the merits of the case, 4 applications were dismissed, while penalty was waived off and stern warnings were issued in 6 cases. Furthermore, extension in time to hold annual general meeting was granted to a company in one instance, while in another case amount of penalty imposed was reduced.

Development Activities

Notification of Maintaining Website by Listed and Non-Listed Companies

The SECP has made it mandatory for all listed companies to maintain their functional websites to provide investors with updated cost-effective and easy information. The websites of companies shall disclose maximum information comprising comprehensive profile and contact details of the company and its management, financial facts, figures and reports. The requirements shall give minority shareholders prompt and easy access to shareholders lists at the time of election, as well as provide updated information to stakeholders.

The department has also proposed maintenance of functional website for unlisted companies having paid-up capital of equal or more than Rs200 million to ensure timely flow of information among stakeholders to make timely decisions. The SECP, in principle, has agreed to the said proposal and it has also been approved to direct these companies to maintain mandatory websites after December 31, 2012. Therefore, in this regard notification is being finalized.

Requirements for Holding Meeting of Board of Directors Abroad

During the year under review, the SECP issued a circular through which the conditions were set forth for holding meetings of board of directors abroad.

Submission of Notice of AGMs and Extra Ordinary General Meetings ("EOGMs") through Electronic Medium

The SECP with a view to facilitating the companies, issued a circular encouraging listed companies to email notices of the AGMs and EOGMs to the SECP along with the statement of facts. Furthermore, the companies may also email scanned copies of newspapers in which the notices of AGMs or EOGMs are published within 3 days of its publication. Currently, listed companies are required to do so through fax. Now the listed companies have been given the option to submit copies of the notices of general meetings, statement of material facts and proof of their publication in the local newspaper through email at a designated email address. It may be noted that choice of the medium adopted for submission of the said document shall remain open to the companies.

Guidelines on Corporate Social Responsibility, 2012

In principle, the SECP has granted approval for introducing corporate social responsibility ("CSR") guidelines for public companies. The guidelines shall be a significant step towards streamlining reporting requirements and corporate accountability of the CSR activities by public companies. The guidelines shall be notified as 'Corporate Social Responsibility Voluntary Guidelines, 2012' after consultation with external stakeholders and general public.

The draft guidelines have been placed on the SECP's website for public comments. The guidelines have also been circulated among prominent public companies engaged in the CSR activities, all stock exchanges, Pakistan Centre for Philanthropy, Pakistan Poverty Alleviation Fund, ICMAP and ICAP.

Whistle Blowing Mechanism and its Implementation

In order to enhance the transparency of the corporate listed entities and the oversight by the regulator, whistle blowing is one of the effective tools that could be engaged by the regulator. This has been recognized by many of the regulatory bodies, i.e., US SEC, FSA UK, in addition to the relevant professional bodies such as the Association of Certified Fraud Examiners-ACFE, PricewaterhouseCoopers (PWC), Deloitte etc.

In line with the international practices, a concept paper has been prepared on the "whistle blowing mechanism" to be established and implemented by the SECP for listed companies. In addition to prescribing an internal whistle blowing program at the company's level, this concept paper is more focused on an external whistle blowing mechanism from a regulator's perspective. Since the whistle blowing concept essentially requires legal backing being a prescriptive enforcement tool, therefore relevant department has been requested to prepare a legal framework for whistle blowing mechanism.

Member Meetings and Resolution Guide

In order to educate and facilitate the stakeholders of the companies regarding members' meetings and resolutions, a guide has been prepared by the Department. This guide consists of answers to frequently asked questions (FAQs) which provides guidance regarding members meetings in line with the relevant provisions of the Ordinance. The templates of various resolutions have been added through appropriate illustrations for the ease of understanding and which may be used by the companies while drafting resolutions to be passed in general meetings. In addition, legal requirements in connection with special businesses have also been provided along with a checklist.

Cost Audit Development

The cost audit can serve as an important tool for effective enterprise governance, competitiveness and strengthening the regulatory mechanism. The SECP as an apex regulator have been striving to frame right regulations in the interest of the industry as a whole and also in the interest of other stakeholders.

The SECP after detailed deliberation on the industry specific issues and consultation with the ICAP and ICMAP, decided to formulate industry specific "Cost Accounting Record Orders" and withdrew the earlier issued "Companies Cost Accounting Records (General Order), 2008".

During the year under review, the SECP has notified Chemical Fertilizer Industry (Cost Accounting Records) Order, 2012, applicable on companies engaged in production, processing and manufacturing of chemical fertilizers.

Furthermore, draft cost accounting record orders for power generation sector and synthetic and rayon sector have been formulated and promulgated during the year under review for stakeholders comment. Whereas, draft notifications in respect to automobile and pharmaceutical sectors are under the process of publication, in order to obtain stakeholder's comments.

Regulations for Investment in Associated Companies/Undertakings

The SECP in consultation with all the corporate stakeholders, formulated and notified regulations for investments in associated companies/undertakings under the proviso of Section 208 of the Ordinance. The regulations prescribe disclosure requirements which ensure transparency of transactions at arms' length between the associated undertakings and aim to curb unfair practices through adequate and standardized disclosures to the members.

Appointment of QCR Rated Auditors for Economically Significant Companies (ESCs)

In order to strengthen the vigilance on the audit reporting of financial statements by the auditors and to safeguard the investors/stakeholders' interest, the SECP directed all non-listed companies categorized as ESCs to appoint their statutory external auditors from chartered accountants firms holding satisfactory rating under the QCR programme of the ICAP with effect from the financial year beginning on or after July 1, 2012.

It is pertinent to mention here that Clause 2(iii) of the Fifth Schedule to the Ordinance provides that 'ESC' means a company that has,

(a) turnover in excess of Rs1 billion, excluding other income;

(b) number of employees in excess of 750;

(c) total borrowings (excluding trade creditors and accrued liabilities) in excess of Rs500 million.

Provided that in order to be treated as economically significant any two of the criterion mentioned in (a), (b) and (c) above have to be met.

Quality Control Review of Cost Auditors

After thorough deliberations with the ICMAP and ICAP, it has been principally decided to develop a framework for QCR for cost auditors before the implementation of QCR for cost auditors. The process to devise the cost accounting standard has been started.

Revival of SECP-ICAP Coordination to Improve the Quality of Audit

After three years, the SECP-ICAP Coordination Committee has been revived and thorough discussions and deliberations have been held on various matters. The committee has discussed issues regarding independent audit oversight, the review of IFRS implementation, extension of mandatory QCR rating for auditors of ESCs, QCR for cost auditors, accounting standards for NGOs and accounting framework for independent power projects.

In order to make representation of the SECP at the ICAP's committee and sub-committee on accounting standards, three officers of the department have been nominated for initial deliberation of new accounting standards and revision of the existing acccounting standards framed by ICAP.

Establishment of IAOBP

A committee has also been constituted by the ICAP counsel to formulate modalities for establishment and functioning of the IAOBP. Five officers are representing the SECP on the said committee.

Representation on QAB of ICAP

The SECP has also secured representation on QAB of the ICAP, responsible for carrying out QCR to develop and maintain compliance of professional standards by audit firms.

Facilitation to corporate sector

In order to ensure comparability and consistency in the accounting treatment adopted by power companies operating in Pakistan, the SECP, on the ICAP's recommendation, has notified a unified accounting framework for IPPs.

Amendments to Fourth and Fifth Schedule

In coordination with the ICAP, certain amendments to the Fourth and Fifth Schedule of the Ordinance have been proposed. The amendments to the existing Fourth and Fifth Schedule of the Ordinance are proposed with a view to these eliminating inconsistencies between Schedules and the applicable Accounting and Financial Reporting Standards. The proposed amendments were forwarded to Legislation and General Council Department ("LGCD") for their vetting and comments.

Amendments to Takeover Regulations

Takeover Ordinance was notified with the objective to provide for a fair and equal treatment to all the investors as well as a transparent and efficient system for substantial acquisition of voting shares and takeovers of listed companies. Later on, the takeover regime was strengthened by introduction of the Takeover Regulations framed under the Takeover Ordinance. The Takeover Regulations were amended in consultation with stakeholders through notification dated June 23, 2009.

Besides having a lot of significance in the security market, the takeover regime was being considered as an imperative statute for development and revival of corporate sector. The SECP therefore was quite cautious to make Takeover Regulations more pragmatic and investor friendly. The SECP took initiative in the light of continuous feedback received from all dimensions of corporate sector and proposed certain amendments to the Takeover Regulations. The main objective for these amendments was to remove the hurdles faced during acquisition process and to encourage takeovers of listed companies.

The SECP also decided to have a consultation session with stakeholders on the proposed amendments, which include leading business groups, stock exchanges, and renowned professionals in the field of corporate law, professional accountancy bodies, companies and business associations to get their perspective and incorporate valuable input in Takeover Regulations.

Therefore, three roundtable meetings (two in Karachi and one in Lahore) were arranged with these stakeholders. One of the major amendments, proposed in these round tables, is that the offer size which earlier was 50% of the remaining voting shares is proposed to be reduced to 40% and thereafter further reduced to 35% based on the level of acquisition. This amendment was demanded by stakeholders so as to revive sick units and keeping in view the present dismal financial conditions. Other changes include takeover fee, clarification on negotiated weighted price, introduction of chartered accountant as valuer, changes in the office of manager etc.

After considering the feedback received from the participants, the SECP issued a notification on draft amendments for public comments on February 16, 2012. The SECP will now finalize the amendments and issue the notification in the official gazette accordingly.

Provident Fund Regulations

The Enforcement Department proposed certain amendments to the existing Employees Provident Fund (Investment in Listed Securities) Rules, 1996 ("Rules") keeping in view, the analysis of the data obtained from various companies belonging to different sectors and complaints received from employees of various companies regarding losses they suffered due to investments made by the provident fund/trust contrary to the provisions of the rules. The SECP in its meeting held on November 3, 2011, formulated a committee to review the proposed amendments and finalize the recommendations. The committee after much deliberation and in the light of discussion held during its meetings proposed changes in the proposed amendments and suggested few additional points to be added in the proposal. The said proposal has been submitted to the LGCD for vetting. The duly vetted proposal will be presented before the SECP for approval and onward notification.

Future Plans

1. Amendments to Companies Ordinance, 1984

The amendments to the Ordinance will be proposed for inclusion in the proposed Companies (Amendments) Bill, 2012, covering suggestion for improvement in the existing provisions as well as introduction of new regulatory areas for facilitation of shareholders and removal of practical problems.

2. Treatment of Unclaimed Dividend

The law requires the companies to pay dividend, once they are declared, to shareholders. However, it observed that listed companies have accumulated substantial amount of unclaimed dividends. Existing legal framework does not provide any treatment for such unclaimed monies of shareholders. Therefore, in the interest of investor protection, the department intends to prepare regulations of unclaimed dividends.

3. Adoption of International Valuation Standards and Issuance of Valuers Registration Regulations

The department has prepared a concept paper along with implementation strategy on development of Regulatory Regime for Professional Valuers and shared the same with State Bank of Pakistan along with a comprehensive roadmap. Further, deliberations will be held to discuss and finalize the regulatory regime for valuers. The implementation of the same will require adoption of international valuation standards and issuance of regulations for registration valuers under the proposed regulatory system.

4. Study Tours of Industrial Units, CDC, KSE etc.

As a part of capacity building initiative at departmental level, study tours to various industrial units and the CDC, KSE etc. will be arranged for officers of the department to gain an insight into their functioning.

5. Proposed Postal/Electronic Ballot and Videoconferencing at General Meetings

In order to embed the use of contemporary technologies to facilitate corporate sector, the department has introduced the concept of videoconferencing for listed companies to make voting process at members' general meetings more effective. The videoconferencing has helped companies to achieve more efficiency, transparency and democracy in the decision-making process implemented at general meetings globally. This process shall not replace the process of physical voting, however, shall provide another channel for shareholders to exercise their voting right. This mode of voting shall also lead to increase in the number of shareholders to participate in the general meetings and increase the number of votes being casted to make a decision.

6. Conversion of Guidelines for Accounting and Financial Reporting for Non-Governmental Organizations (NGOs)/Not for Profit Organizations (NPOs), and Guidelines for Accounting and Financial Reporting for NGOs/NPOs Engaged in Microfinance, issued by ICAP, into the Accounting Standards for the companies formed under section 42 of the Ordinance

Keeping in view the requirement of accounting and financial reporting framework for the companies licensed under Section 42 of the Ordinance, the department has requested the ICAP for conversion of guidelines for accounting and financial reporting NGOs/NPOs into standards. This would ensure better governance, transparency and appropriate disclosures in their financial statements.

7. Development of Industry Specific Cost Accounting Records

In pursuance to its objective to develop industry specific cost accounting records, the department plans to promulgate Cost Accounting Records orders for four industries, i.e., motor vehicles, pharmaceuticals, synthetic and rayon, and power generation.

8. Investors/Stakeholders' Education

In order to raise the knowledge and awareness of regulatees about their regulatory responsibilities, the department plans to prepare a one-page educational flyer for chief executives, directors and the company secretaries. Furthermore, in order to promote the investors/corporate awareness regarding recently introduced regulations and other significant provisions of laws, the department intends to prepare guidebooks related to following:

a) Governing compromises, arrangements and reconstruction between a company and its creditors or any class of them, or between the company and its members or any class of them
b) Investment in associated concerns
c) Takeover regime
d) Dividend announcements, treatment in the books of accounts according to latest changes in the fourth schedule to the Ordinance, payment modes/procedures and timelines

A pair of Waiver birds building a nest

Our strategy is to develop an efficient and dynamic regulatory body that fosters principles of good governance in the corporate sector, ensures proper risk management procedures in the capital market, and protects investors through responsive policy measures and effective enforcement practices.

Securities Market Division

Annual Targets & Achievements – Supervision Department, Securities Market Division

Targets

- Development of Rules and Regulations
- Revamping and Amendments in the regulatory framework
- Development of Codes and Guidelines
- Onsite and Offsite Inspections
- Automation

Achievements

- Drafted Underwriter Rules, Share Registrars and Transfer Agents Rules; Regulations for Issuance of Call Warrants; Regulation for issuance of Commercial Paper, Regulations for Issuance of Sukuk Certificates; Developed Debt Securities Trustee Regulations
- Initiated revamped of Capital Issue Rules; Buy-back Rules; Brokers and Agents Registration Rules; Credit Rating Companies Rules
- Various codes and guidelines are being developed to bring our capital market inline with best international standards
- Onsite inspections of the brokers registered with the Commission; and Offsite inspections of the Stock Exchanges and Central Depository Company are being carried out
- Significant improvements in the current processes and procedures have been witnessed. The automation project includes development of online filing of registration and renewal application by the broker and financial reporting system for brokers

Highlights

- 96 orders were issued for non compliances pertaining to Insider Trading, Front Running, Wash Trades, Blank Sales, Short Sales, Price Manipulation, provision of false information, late filing of beneficial ownership returns and non compliance of the Securities Laws.
- 138 Warning letters were issued to curb the non compliances and to increase the transparency and efficiency of the Capital Market
- Registered 259 brokers and 310 agents working in the three stock exchanges.
- 34 investors' complaints were handled in addition to the handling of matters pertaining to the expelled/suspended members of the Stock Exchanges.

Targets

- Monitoring and surveillance of the trading activities in the stock market
- Examination of returns of beneficial ownership
- New listings, issuance of Prospectus and IPO approval
- Registration and renewal of the brokers and agents of the stock market
- Handling of investors' complaints

Achievements

- In order to Increase transparency and efficiency of the capital market, activities leading to the market manipulation were identified; investigations/enquiries were conducted and enforcement actions were taken
- Filing of returns in change of beneficial ownership by the listed companies and their beneficial owners is monitored and enforcement actions on non-compliances were initiated and finalized
- Number of prospectuses and IPOs were reviewed and approved that includes 4 new equity listing and 3 debt listings
- Reviewed registration and renewal applications and issued registration certificates to 259 brokers and 310 agents working in the stock market
- Efficiently handled various complaints received from the investors against the registered brokers and the expelled member of the stock exchanges

Securities Market Division

The Securities Market Division (SMD) is responsible for monitoring, regulating and developing the securities market. It regulates the primary and secondary markets as well as market intermediaries through registration, surveillance, investigation, enforcement and rule making, with the objective of protecting investors' interest. SMD also processes and grants approvals to prospectuses for public offering of both debt and equity securities. In addition, it is entrusted with instituting appropriate regulatory reforms to develop and promote the market, engender investor confidence and instill transparency, effective risk management and good governance at the three Stock Exchanges, Pakistan Mercantile Exchange, Central Depository Company and National Clearing Company.

The division has two departments:

- Market Supervision and Capital Issues Department
- Policy, Regulation and Development Department

Market Supervision and Capital Issues Department

Market Overview

The KSE 100 Index manifested significant growth with accelerating trends during the FY2012. The activity during first half of the FY2012 remained sluggish with declining Index movement along with depressed volumes owing to pressures on external front like Rupee depreciation against USD, lesser foreign interest and economic activity in the country and turbulent Pak-US Relations. However, the KSE – 100 Index rebounded in the second half of the FY2012 depicting momentous growth and liquidity, where factors like ease-off on the capital gains tax (CGT) and Margin Trading System regime coupled with corporate profitability made significant contribution to revitalize the stock market activity.

The benchmark KSE 100 Index started with a downward trend in the start of the financial year. Starting from a level of 12,484.17 points, the index dipped to low of 10,909.12 points in January 2012. Regaining its strength in the second half of the fiscal year, the index touched a high of 14,617.97 points by May 2012.

During the second half of the FY2012, the index and volumes picked momentum and KSE 100 Index closed at 13,801.41 points by the end of FY2012. The eminent index drivers included factors like healthy corporate results, major developments on the long-awaited factors of the CGT and Margin Trading System Regime, which played a vital role in boosting the retail and institutional investors' confidence.

Regardless of certain economic, political and external challenges, the Pakistani stock market has been able to sustain its levels. The daily average volumes remained around 139 million shares on daily average basis which is approximately 40% higher as compared to the previous year where daily volumes once exceeded the six year high of 576 million shares. The market capitalization stood at Rs3,518.13 billion at the end of FY2012.

The foreign investment in the stock market exhibited a net outflow of $189 million by the end of the FY2012, which was predominantly built up in the first half of the FY2012.

Development of new Products and Systems

Review Off-Market Trading in Light of best International Practices

In order to enhance the transparency and efficiency of off-market transactions the SECP conducted a study wherein different practices and regulatory requirements regarding reporting and settlement of the off-market transactions were reviewed.

Based on the said study a number of recommendations were shared with the three stock exchanges which after detailed deliberation accepted and implemented a number of recommendations regarding off-market transactions reporting and settlement. These amendments included settlements of off-market trades through NCCPL's National Clearing and Settlement System (NCSS), option to settle off-market trades on T+0 to T+60 basis and transmission of off-market trades to NCSS on a real time basis.

Review of Criteria of KSE 100 Index in line with International Benchmarks

The composition of KSE 100 Index in light of the best international practices and capital market of Pakistan was reviewed. The committee proposed a strategy paper, proposing re-composition to free float, which was approved by the exchange. In the month of June 2012, the KSE decided that both indices, i.e. current full capitalization KSE 100 Index and free float based new index, will run in parallel for next 90 days for comparison purposes and for any adjustments, rebalancing that might be required by investors, funds in their portfolios due to this modification.

Thereafter, at the time of next scheduled re-composition (October 1, 2012) of the Index, KSE 100 (Free Float) shall replace KSE full-capitalization 100 index.

Issue of Capital

Issue of Share Capital

During the period under review, shares of 4 companies were offered to the general public as compared to 2 companies last year. New capital of Rs10.312 billion was listed in FY2012, Table 9 as compared to Rs8.071 billion in FY2011. Out of these 4 issues, 3 issues were IPO of new shares through which Rs550 million were raised from the general public. Two out of these 3 issues were oversubscribed while one was undersubscribed. Moreover, there was an offer for sale of securities amounting to Rs270 million, out of total paid-up capital of Rs7,480 million. Out of the total 4 issues, 3 issues were offered through book building process Table 10.

Similarly, during the same period, 3 companies issued TFCs to the general public as compared to 2 companies last year. The detail of these companies may be seen at Table 11. TFCs of Rs4.254 billion were listed during FY2012 as compared to Rs4 billion in FY2011. One TFC of Rs2 billion (inclusive of green shoe option of Rs1 billion) is currently in process of listing.

Listing of Securities on Over the Counter (OTC) Market

During FY2012, one Commercial Papers (CP) issue of Rs1 billion and one Privately Placed Term Finance Certificates (PPTFCs) of Rs2 billion were listed on OTC market.

Employees' Stock Option Scheme

Employees Stock Options are used not only to reward employees but also as retention tools, building up long term loyalty of employees to their workplace. No company applied for approval of employees' stock option scheme during FY2012. However, Systems Limited has requested for approval of certain amendments to their existing ESOS, under the Public Companies (Employees Stock Option Scheme) Rules, 2001. These amendments are aimed at (i) authorizing the compensation committee to make fair/reasonable adjustment to the number of options granted or to the Exercise Price in respect of the scheme; and (ii) to bring the exercise price in line with the fair market value of the share of the company, for the options vested in the year 2012 and onwards. The members of the company in extraordinary general meeting (EOGM), held on June 4, 2012, have approved necessary amendments to the scheme.

Issue of Securities outside Pakistan

Pakistani companies can raise fund from the international markets against issue of securities like International Bonds, Sukuk, GDRs and other securities. The SECP's approval is required by such companies under Section 62A of the Companies Ordinance, 1984, read with Section 20(5) (a) of the SECP Act, 1997.

During FY2012, approval was granted to one company, i.e., MCB Bank Ltd for issue of American Depository Receipts (ADRs) outside Pakistan under Sponsored Level-I ADR programme by the Bank of New York Mellon, the depository.

Registration of Brokers and Agents

Brokers and agents are required to be registered with the SECP under the Brokers and Agents Registration Rules, 2001.

Brokers

At the end of financial year 2012, the total number of brokerage houses registered with the SECP stood at 259 as compared to 276 during last financial year. The stock exchange-wise categorization of corporate and individual brokers is as follows:

Stock exchange	Corporate brokers	Individuals	Total brokers
KSE	125	6	131
LSE	64	11	75
ISE	52	1	53
Total	**241**	**18**	**259**

The KSE has 51% of the total brokers registered with the SECP as compared to 29% of the LSE and 20% of ISE. Moreover, 93% of brokers are corporate brokerage houses and 7% of them are working as individual brokerage houses.

Agents

The statistics with respect to certificates granted to agents, stock exchange–wise as of June 30, 2012 are presented in the table below.

Stock exchanges	Number of agents as of June 30, 2011	Addition during the Year	Cancellation/ expiry of registration	Number of agents as of June 30, 2012
KSE	290	23	86	225
LSE	116	5	52	71
ISE	16	2	4	14
Total	**422**	**30**	**142**	**310**

Investor Complaints

A quick redress of investor complaints and grievances is an important instrument in restoring investor confidence. During the year under review the Brokers Registration and Investor Complaints Wing has issued 4 orders for redressal of investor complaints and imposed a total penalty of Rs1.45 million. The details of complaints handled by the SECP during the year are presented in the Statistics section, Table 15.

Monitoring and Surveillance

As a part of its mandate to develop an efficient, effective and transparent stock market and to inculcate integrity and fairness in the trading activity, the Monitoring and Surveillance Wing (MSW) has worked on a comprehensive strategy to identify any abusive, manipulative and irregular trading practices and took subsequent measures. The emphasis is laid upon unrevealed complex schemes of market abuse including insider trading, front running etc, which are really detrimental for investors interest. Moreover, in order to ensure the orderly execution of the market operations, significant measures have also been taken.

In 23 violations of securities law, orders imposing penalties on the members of the stock exchanges and other stakeholders were issued. Warning letters were issued to 30 Karachi Stock Exchange members, 2 Lahore Stock Exchange members and 1 Islamabad Stock Exchange member for violations of the securities market law. Moreover, two warning letters were issued to non-broker market participants for non-compliance with the securities laws. The summary of the enforcement actions taken is presented below:

Orders	
Violations	**Number of cases**
Insider trading/front-running	14
Circular trading/artificial turnover	1
Wash trades	3
Blank sales	1
Price manipulation	1
Provision of false information	1
Non–compliance with SECP's orders	1
Non-compliance with laws	1
Total	**23**

Warning Letters	
Violations	**Number of cases**
Wash trades	19
Blank sales	15
Violation of listing regulations	1
Total	**35**

Beneficial Ownership

The SECP monitors trading activities of beneficial owners of listed companies through returns filed by them, prescribed information/annual returns filed by listed companies and trading data of stock exchanges. The primary objective of this monitoring is to detect the instances, where the beneficial owners have made gain by purchase and sale or sale and purchase of shares of issuer companies within a period of less than six months. The SECP received 2,251 returns during the period under review.

Enforcement Actions

a. Actions under Section 224(4) of the Companies Ordinance, 1984 (late filing of returns of beneficial ownership)

The returns of beneficial ownership and annual returns on Form A are required to be filed within the prescribed time limit. The following actions were taken, where the said returns were received with delay of more than sixty days:

Sr. No.	Category	Number of cases
1	Warning letters issued	103
2	Orders issued	66

b. Actions under Section 224(2) of the Companies Ordinance, 1984 (Recovery of Tenderable Gain)

Twelve cases of tenderable gain were brought forward, while twenty-one fresh cases were detected during the period under review. Moreover, during the period under review a procedure for recovery of tenderable gain pursuant to the judgment made by Supreme Court on May 5, 2011 was approved by the SECP, with the condition that the said procedure will remain in practice till the decision of the review petition, filed by SECP before the Supreme Court. Meanwhile, the review petition was dismissed by the honorable Supreme Court. The matter has been referred to seek external and internal opinions and suggest the most viable manner to deal with the pending/future cases of recovery of the gain. The pending cases of recovery of tenderable gain will be processed in the light of said opinion.

Automation of Processes

a. In order to enhance monitoring capabilities of the SECP, an automated system has been developed to detect the instances of accrual of tenderable gain through trading data of the stock exchanges.

b. In order to facilitate the listed companies, IS&T Department was requested to develop a sub-project of eServices, enabling the listed companies to file additional information and list of members, online. On closing of the review period, Business Process Document of the project was developed by IS&T Department as well reviewed by the relevant wing.

Compliance and Inspection

The compliance of relevant rules and regulations and effective monitoring is essential to strengthen the market oversight and enforcement.

The Compliance and Inspection Wing ("CIW") has become fully functional this year to ensure compliance of Regulatory Framework. The wing ensures compliance through off-site reporting and on-site inspection.

Off-site Reporting

An important tool employed by the SECP in achieving its regulatory objectives is the off-site monitoring of the various entities it regulates. This off-site monitoring not only allows the SECP an oversight of each regulated entity but also serves as the first step towards more targeted and invasive on-site inquiries, inspections and investigations, if necessary.

The C&IW carries out off-site monitoring through review and analysis of information provided by stock exchanges and the Central Depositary Company of Pakistan through reports in prescribed forms, System Audit Reports and CDC Inspection Reports.

At the moment, three stock exchanges and the CDC have been submitting information through forms prescribed by the SECP, with varying frequency. The information provided in these forms was duly reviewed to ensure completeness, correctness and compliance status of submitted information. The observations noted by C&IW are than communicated to respective reportee to resolve the matter accordingly.

The System Audit Reports relating to the members of the stock exchanges submitted by relevant exchanges and Inspection Reports of Participants provided by the CDC were also reviewed and analyzed to ensure compliance status of submitted information. The observations noted by C&IW are than communicated to respective reportee to resolve the matter accordingly.

On-site Inspection

Inspection is an effective tool for regulators across the world in performing their statutory responsibilities. It helps to ensure regulatory compliance by the participants of securities market and enhance confidence of the investors. The SECP started inspection of brokers of Karachi Stock Exchange this year. It also took steps to create awareness among brokers regarding benefits of inspections for the regulators, regulates and investors through presentation and sharing of common non-compliances, as highlighted, during inspection of brokers.

Based on irregularities observed during inspection, enforcement action was initiated and till date one of the inspected brokerage house has been penalized due to severe irregularities in calculating Net Capital Balance Statement.

Key Achievements for FY2012 with Respect to Compliance of Regulatory Framework

The key achievements of the wing during the period are as follows:

- Developed, approved and implemented inspection policy and manual
- Carried out on-site inspection of 9 brokerage houses
- Started enforcement action as per observations mentioned in on-site inspection reports
- Started off-site reporting mechanism by exchanges and the CDC
- Developed database regarding off-site reports received from exchanges and CDC
- Scope of CDC Inspection is being enhanced based on observations and recommendation by C&IW on CDC Inspection Reports
- The scope of system audit were reviewed analyzed and amended

Enquiries of the Expelled Members of Stock Exchanges

During the year under review the total 1,171 claims against the following expelled/suspended members were settled:

- Eastern Capital Limited (516 claims)
- Click Trade Limited (540 claims)
- Capital One Equities (Pvt.) Ltd. (57 claims)
- MKA Securities (Pvt.) Ltd. (22 claims)
- Bagasra Securities (Pvt.) Ltd. (3 claims)
- Al-Mal Securities (Pvt.) Ltd. (7 claims)
- Durvesh Securities (Pvt.) Ltd. (8 claims)
- SAT Securities (Pvt.) Ltd. (6 claims)
- Najam Riaz Ghory (7 claims)
- Shahid Asim Capital (Pvt.) Ltd. (5 claims)

Regulatory Actions

Compliance with the requirements of the Brokers and Agents Registration Rules, 2001, was ensured and appropriate punitive measures were taken in cases of violations. During the year under review following enforcement actions have been taken against the brokers:

- Three brokers were advised/warned to take appropriated measures to improve their financial conditions.
- Three applications for Registration and Renewal of Registration as a broker were refused vide Order under Rule 5(4) of the Brokers and Agents Registration Rules 2001.
- Enquiries under Section 21 of the Securities and Exchange Ordinance, 1969 and Section 29 of the Securities and Exchange Commission of Pakistan Act, 1997 were conducted against the following brokerage companies who have filed winding up petition in Lahore High Court:
  - H.S.Z Securities (Pvt.) Ltd.
  - Khalid Javed Securities (Pvt.) Ltd.
  - Wasi Securities (SMC-Pvt.) Ltd.

The said enquiries were not concluded due to non-provision of information by the directors of the companies, therefore, the said cases were referred to NAB for resolution of investors claims. Moreover, proceedings under section 22 of the Securities and Exchange Ordinance, 1969, were initiated against some companies and a total penalty of Rs12 million was imposed on the said companies.

- Two more brokerage companies filed Winding-up Petition in the court, i.e.,
- Stock Master Securities (Pvt.) Ltd.
- Muhammad Ahmed Nadeem Securities (Pvt.) Ltd.

In order to protect the interests of the investors, enquiries under Section 21 of the Securities and Exchange Ordinance 1969 and Section 29 of the Securities and Exchange Commission of Pakistan Act, 1997 against these brokers were initiated. The proceedings of enquiries are in process.

- During the year under review 2 brokers have been defaulted and enquiries/investigation in this regard is in process
- On receipt of Inspection Report on First National Equities Ltd., proceedings under Section 22 of the Securities and Exchange Ordinance, 1969 has been initiated and a penalty of Rs 0.5 million was imposed on the broker.

Actions under Section 18A of the Securities and Exchange Ordinance, 1969

Submission of fictitious and multiple applications (more than one application by the same person) are prohibited under Section 18A of the Securities and Exchange Ordinance, 1969, and such applications' money is liable to confiscation.

During FY2012, due to increased awareness among market participants, no case of violation of the provision of the said section was found and reported.

Complaints Resolved Pertaining to Issuers/Companies

The Capital Issue Wing entertained various complaints pertaining to IPOs. During FY2012 CIW disposed of 28 complaints. The status of these complaints is as follows:

Complaints Status FY2012	
Brought forward from previous FY2011	06
New complaints received during FY2012	28
Total dealt with during the FY2012	34
Disposed of during the FY2012	28
Under process as of July 1, 2012	06

Developmental Activities

Formulation of Debt Securities Trustees Regulations

In order to safeguard interests of the debt securities holders, ensuring that provisions of the Trust Deeds executed between the issuers and the trustees are adhered to, to monitor compliance by the issuers of the terms and conditions of the respective trust deeds, to monitor maintenance of the security, if any, to monitor the payment of profit/markup/interest to the holders and redemption of the securities, and to redress the complaints of debt securities holders, the SECP has approved the Debt Securities Trustees Regulations 2012. These regulations were published in the Official Gazette vide Notification No. S.R.O. 339(I)/2012 on March 30, 2012. The regulations would help investors' confidence building and development of a vibrant corporate debt market in Pakistan.

Amendments to the Share Transfer deed for Dividend Mandate

In order to facilitate the shareholders, the listed companies and the share registrars and to encourage payment of dividend through direct credit in the shareholder's bank account, amendments were made to the Form of Transfer Deed provided in regulation 9 of the Regulations for Management of a Company limited by Shares provided in Table-A of the First Schedule to the Companies Ordinance, 1984.

Revamp the Guidelines for Issuance of Commercial Papers

Commercial Paper (CP) is an unsecured money market instrument issued in the form of promissory note. Earlier "Guidelines for Issue of Commercial Papers" were issued in 2002, which were subsequently reviewed in the light of SBP's Guidelines on Commercial Paper and a number of suggestions received from different stakeholders. The SECP after internal deliberations decided to convert these Guidelines into Regulations. The Guidelines have been converted into Regulations. The draft Regulation for issue of Commercial Papers is being finalized.

Formulation of the Rules for Regulating Affairs of the Underwriters and the Balloters & Transfer Agents

The Balloters, Transfer Agents & Underwriters Rules, 2001 (BTU Rules), were promulgated to regulate the affairs of the balloters, transfer agents and underwriters. These rules had a very limited scope as they provide merely the eligibility criteria for these intermediaries and there is no licensing/registration requirements for these intermediaries neither they contained any penalty clause in case of default and non-compliance.

In order to build up investors' confidence and to ensure that their interests are properly safeguarded, the existing BTU Rules have been revised and two separate set of rules have been drafted and submitted to the Ministry of Finance for approval.

Consultant to a Public Issue of Securities Rules, 2012

The consultants to a Public Issue of securities play vital role in floatation of securities. They are not only involved in the preparation of prospectus and other related documents but also act on behalf of their clients, i.e., the issuers/offerers in getting necessary approvals from the regulatory authorities and conducting road shows etc. For regulating the affairs of consultants, MS & CI Department of SMD in consultation with other departments of the SECP has drafted the Consultants to a Public Issue of Securities Rules, 2012.

The said draft rules broadly covers four major areas viz. (i) eligibility criteria for Consultants to a Public Issue of Securities; (ii) registration and renewal; (iii) duties and responsibilities; and (iv) disciplinary action against the consultants to a Public Issue of Securities, in case of contravention and failure. It is expected that upon finalization of the said rules and proper implementation thereof, quality of the prospectus drafted by the consultants and that of other related documents will improve which will help in time saving and early finalization of the IPOs and right issues etc. The draft rules have been forwarded to Ministry of Finance for approval.

Review of the Companies (Issue of Capital) Rules, 1996

The Companies (Issue of Capital) Rules, 1996 (CI Rules), were promulgated on February 8, 1996 and contain a set of requirements and procedures for the Companies proposing to offer share capital to the public. Since its notification, no amendments have been carried out in the CI Rules. Pursuant to changes in market dynamics and introduction of the book building process, it was felt necessary to make certain amendments in the CI Rules. The CI Rules after making necessary amendments were notified for public opinion on September 08, 2010 and simultaneously comments of some key stakeholders were also obtained. After considering their valuable feedback the said draft CI Rules have been revised and forwarded to key stakeholders on July 25, 2011. Afterwards a meeting was held with key stakeholders on October 25, 2011 for their valuable input/feedback/comments. Subsequent to that the CI Rules are being finalized prior to sending the same to MOF for approval.

Introduction of e-IPO

The SECP introduced and implemented the concept of e-IPO. e-IPO will enable the investors to make application for subscription of shares online, even using mobile phones without the hassle of going to their banks and wait in long queues. The basic purpose of implementation of e-IPO is to facilitate simultaneously both the companies that intend to raise fund from the capital market through IPOs and the general public applying for subscription of shares and corporate bonds.

The first ever e-IPO conducted with the help of United Bank Limited, one of the bankers to the offer was of the Aisha Steel Mills Limited. The bank developed its own system enabling its account holders to make application for subscription of shares of Aisha Steel Mills Limited electronically. The concept of e-IPO being a step towards automation of the primary market was very much appreciated in the market. e-IPO has many benefits including efficiency in the IPO process, cost saving and accessibility of the investors in remote areas of the country.

Measures to Encourage new Equity Listings

A number of steps were taken to encourage new listings which include the following:

- Formation of a technical committee, comprising members from all the three stock exchanges and the SECP. The TORs of the committee included
- Revision of the existing regulatory framework for new listing
- Introduction of SME board for listing of small capital based companies and venture companies
- Amendments to the Listing Regulations for reviewing the minimum allocation of capital to the general public
- Devising a procedure for allocation of capital to various categories of applications during IPOs and
- Bringing uniformity in the listing regulations of all the three stock exchanges

- Expansion of outreach of CDCPL to at least all the main cities directly or indirectly
- Meetings and correspondence with various public sector organizations and regulatory authorities, like PTA, PPIB, DGPC, NEPRA, PEMRA, BOI and the State Bank etc. to encourage their regulatees for listing
- Formulation of separate set of regulations for listing of Debt Market Securities

Tax Incentives for Listed Companies

In order to suggest tax incentives for listed companies, an analysis of annual audited accounts for FY2010 of 350 companies (Listed and Unlisted/private companies both from public and private sector) was conducted. The analysis revealed that;

(i) Listed companies (including public sector companies) despite having smaller capital base have on average paid 107% more tax as compared to unlisted companies

(ii) Listed companies (excluding public sector companies) despite having smaller capital base have paid on average 14% more tax as compared to unlisted companies

Listing Guidebook

In order to facilitate the issuers, offerers and the consultants to the Public Offer of Securities, Listing Guidebook has been published. It not only contains general information about the purpose and benefits of listing but also contains all major legal requirements applicable to IPOs and listings. LGB is available at the SECP's website.

Measures for the Development of Debt Markets

Regulatory Framework for the Credit Rating Agencies (CRAs)

Regulatory framework for the credit rating agencies (CRAs) is being revamped so that CRAs play more effective role in the development of debt market. In this regard a committee, comprising of the representatives of the SECP, SBP and CRAs was constituted by the SECP. The mandate of the committee included:

- The review of the existing regulatory framework for CRAs in line with the best international practices
- Strengthening of the existing regulatory framework for CRAs viz. the Credit Rating Companies Rules, 1995, and the Code of Conduct for CRAs dated February 17, 2005
- The review of the proposals of CRAs regarding enhancement of the rating universe
- Diversification of capital structure of CRAs and their listing on the stock exchanges and
- Formulation of the regulatory framework for establishment of a Bond Pricing Agency (BPA)

The committee has submitted its report. The committee in its report has, inter alia, recommended:

(i) Various amendments to the Credit Rating Companies Rules, 1995

(ii) Revision of the Code of Conduct for CRA

(iii) Enhancement of the Rating Universe

(iv) Establishment of a Bond Pricing Agency

Reduction in Stamp Duty on Corporate Bonds

In order to rationalize the cost of issue of corporate bonds, steps are being taken to reduce the rate of stamp duty applicable on issue and transfer of Term Finance Certificates (TFCs) and Commercial Papers.

Future Plans

Regulations for Research Analysts

Research reports are a regular feature of the capital market. Regulating the activities of research analysts and persons disseminating investment recommendations is indispensible for efficient functioning of the securities markets. The research, analysis and insight offered by such professionals to their clients in particular and the overall investing public in general should necessarily follow a set of procedures and policies to bring homogeneity and enhance integrity in the process to instill overall investor confidence. In this regard, development of a set of regulations is underway to govern the activities of research analysts and persons disseminating investment recommendations.

Code of Conduct for Trading/Investment Practices

The Code of Business Conduct for Trading/Investment Practices is being formulated. The said code is aimed at enhancing the control structure and policies of market intermediaries and financial institutions and is based on the essence that market participants and financial institutions should engage in trading/investment practices with the principles of good faith and fair business conduct following equitable business practices in order to ensure the regular operation of stock market and best possible protection of customers' interests.

Development/Review of the Regulatory Framework

The SECP strives for the development of a vibrant capital market. The following developmental activities are being proposed to be undertaken for the forthcoming fiscal year 2012-13 for the development of the capital market, especially primary market:

(i) Review of the Existing Rules/Regulations/Guidelines

a. Review of the Companies (Asset Backed Securitization) Rules 1999
b. Review of the Credit Rating Companies Rules, 1995
c. Review of the Guidelines for issue of Commercial papers
d. Review of the Guidelines for issue of Term Finance Certificates
e. Review of the existing Companies (Buy-back of Shares) Rules, 1999 and replacement thereof with the Companies (Buy-Back of Shares) Regulations

(ii) Development of new Rules /Regulations/Guidelines

a. The Underwriters Rules, 2012
b. Balloters and Transfer Agents Rules, 2012
c. The Advisor, Consultants and Lead Manager to an Issue Regulations
d. Regulations for the Issue of Sukuk Certificates
e. The Regulations for the issue of Call Warrants
f. The Companies Issue of Redeemable, Perpetual, Convertible and Exchangeable Debt Securities Regulations
g. The review of the Listing Regulations of the stock exchanges with the view to make the listing process easy and efficient

Compliance of Regulatory Framework

a. On-site Inspection

On-site inspection of the brokerage houses and the stock exchanges will be carried out.

b. Off-site Reporting

Off-site reports being received from stock exchanges will be reviewed, analyzed and enforcement action, if any, will be taken

c. Reports on System Audits, CDC Inspection and Internet Trading

The review and analysis of System Audit Reports, CDC Inspection Reports and Reports on Internet trading will be undertaken

Annual Targets & Achievements – Policy, Regulation and Development Department, Securities Market Division

Targets

- Ensureing an effective bond trading platform and if feasible, establish a neutral bond pricing agency
- Continuous reviewing and revamping of all existing products
- Introducing cross listing and trading of International Indices
- Making amendments to the regulatory framework of the SROs for introduction of warrants
- Diversifying product portfolio for enhanced activity through introduction of 3-5 new commodity futures contracts and 3 new currency contracts
- Facilitating broadbase of PMEX shareholding
- Establishing an Investor Protection Fund Trust by PMEX
- Introducing System Audit Regulations for PMEX
- Introducing Market Making Regulations for PMEX
- Revamping arbitration regulations and procedure at the stock exchanges
- Processing amendments to the Listing Regulations w.r.t. book building process
- Improving Fit and Proper Criteria for Directors of stock and commodity exchanges, CDC and NCCPL

Achievements

- Feasibility study done; Draft BPA Regulations framed; proposed sponsors negotiating with prospective sponsors
- Securities (Leveraged Markets and Pledging) Rules, 2011 amended to make leverage products more practical and attractive; Measures to encourage activity in Deliverable Futures Market
- KSE in dialogue with BSE, India for cross-listing of BSE Sensex based futures at KSE; in process of signing MoU
- Will be done subsequent to formulation of regulations for issuance of call warrants
- Eight new commodity futures contracts approved and listed; Dialogue in process with SBP for foreign currency futures contracts
- Achieved
- Achieved
- Draft Regulations framed
- Achieved
- Achieved
- Technical Committee finalized recommendations; stock exchanges to submit amendments
- Achieved

Highlights

- Demutualization Regulations were drafted and approved. Necessary requirements of the Stock Exchanges (Corporatisation, Demutualization and Integration) Act were completed
- Regulatory framework for index options was introduced
- For developing secondary trading in the debt market, BATS upgraded and revamped; All corporate bonds traded/reported; TFCs cross-listed and inter-exchange trading of TFCs enabled
- Regulatory framework for launch of Exchange Traded Funds was introduced
- Internet Trading Regulations were approved

Targets

- Widening script level circuit breakers
- Reviewing the Default Management Regulations and Procedures of stock exchanges and NCCPL
- Diversifying types of securities acceptable as collateral and harmonize eligibility criteria for such securities in different markets
- Effective follow-up procedures for suspension, delisting of companies presently quoted or to be quoted on the defaulters' segment
- Ensuring acceptance of funds by brokers from clients only through bank transactions
- Revamping standardized account opening form at broker level and align it with account opening form at the CDC
- Introduction of the revised Code of Corporate Governance and Incorporation in Listing Regulations
- Finalizing Joint Procedures for dissemination of information and taking disciplinary actions against Broker Participants at exchanges, CDC and NCCPL
- Finalizing TORs for initiating (UIN) Audit
- Amending requirements w.r.t. listing of debt instruments
- Clearly segregating and demarcating the roles to be discharged by the apex and frontline regulators
- Developing specie dividend policies/guidelines

Achievements

- Considering that the extended circuit breakers will not be feasible due to lack of liquidity in the market, target has been deferred till the time the market improves
- Is being done in conjunction with the demutualization exercise
- Achieved
- The policy approved for such companies made part of regulatory framework of stock exchanges and CDC and improved for practical purposes
- The Standardized Account Opening Form at broker level amended for the purpose
- A revised comprehensive form prepared; will be implemented post formation of KYC Registration Agency – Partially achieved
- Achieved
- Achieved
- Achieved
- Technical Committee finalized recommendations; stock exchanges to submit amendments
- Strategy for effective demarcation of roles developed/implemented
- Regulations drafted for Specie Dividend

Policy, Regulation and Development Department

Pakistan Mercantile Exchange Limited (PMEX): Contracts Traded, Traded Value and Memberships (July 2011 – June 2012)

The trading volumes at the PMEX showed substantial growth during the review period. The total traded value of contracts climbed to Rs865.6 billion in FY2011-12 as compared to Rs490.5 billion in FY2010-11 depicting a growth of 76%, whereas the number of contracts traded rose to 3,521,325 in FY2011-12 from 1,475,582 traded in the FY2010-11 depicting a growth of 138%. Further, during the period under review, the membership base of PMEX was also broadened with the grant of 48 new brokerage licenses, under the Commodity Exchange and Futures Contracts Rules, 2005.

Key Achievements

Development of Laws and Regulations

In pursuance of the SECP's mandate to develop a robust regulatory framework which encourages development of fair, efficient and transparent capital markets, various amendments were approved to the regulatory framework of the capital markets after extensive stakeholder consultation and consensus building and in the light of global standards and international best practices:

Amendments to the Regulatory Framework of the Stock Exchanges

To allow price discovery for securities in a better regulated environment with enhanced risk management features, the Regulations governing risk management and regulations governing futures trading in provisionally listed companies were amended to provide for application of extended circuit breakers on first day of trading of a security in the ready market or the futures trading in provisionally listed companies market.

In order to facilitate trading at the stock exchanges, amendments were approved to the regulations governing risk management for allowing shareholders of a particular brokerage house holding at least 10% of its shares to give authorization for utilizing the excess margin eligible securities available in their sub-accounts for meeting any shortfall in the margin and MtM losses requirements of other clients of the brokerage house.

The listing regulations of the stock exchanges were amended to rationalize the applicable listing fee structure and align it with international models and best practices. A maximum limit for levying additional listing fee was prescribed and the basis of fee to be charged was changed from listed capital to market capitalization. The said regulations were also amended to provide relief to companies by ensuring that suspension of trading in their shares due to filing of winding-up petitions is only effective in genuine cases of winding-up and not based on petitions which are void of merit or filed with malafide intent. It was accordingly ensured that trading is only suspended in cases where the petitioner(s) have substantive ownership in/claim against the company, i.e., where winding-up petition is filed against a listed company by its shareholder(s) or creditor(s), the exchange may suspend trading in shares of the company only if such shareholder(s) own 10% of the company's paid-up capital or the creditor(s) have a claim equivalent to at least 10% of the company's equity.

With a view to consolidating the various eligibility criteria applicable for selection of securities in particular market segments and put in place standardized criteria, a uniform criteria for selection of securities eligible for trading in the cash-settled futures, deliverable futures and margin trading system markets was approved by the SECP. Consequent to implementation of the uniform criteria, the Regulations governing cash-settled futures contract and regulations governing deliverable futures contract were also amended to incorporate provisions allowing interim and final reviews of eligible securities in accordance with the uniform criteria.

In order to revive trading activities in the derivative segment of the stock exchanges, various amendments were approved to the regulations governing deliverable futures contract and consequential amendments were also approved to the regulations governing risk management in respect of complete wavier of basic deposit requirements and collection of 50% exposure margins in cash and remaining 50% in the form of margin eligible securities.

In order to enhance transparency and provide investors timely and cost-effective access to arbitration procedures in the event of any disputes/grievances, a comprehensive review of the entire dispute resolution mechanisms available at the stock exchanges was undertaken in consultation with the relevant stakeholders and suitable amendments were incorporated into the General Regulations to make the process more economical, transparent, objective and efficient.

With a view to enhancing investors' confidence through improved investor protection, the limit of contribution from the Investor Protection Fund (IPF) per case of default/expulsion was enhanced from Rs25 million to Rs75 million for KSE and amendments were approved to the Investors' Protection Fund Regulations, Members' Default Management Regulations and General Regulations for the same.

In an effort to ensure improved regulation and supervision of Internet-based trading activities offered by the brokers and effectively address various issues such as risk management, information security, infrastructure requirements, information disclosures and privacy etc. which are unique to this segment, the SECP approved the Internet Trading Regulations for the stock exchanges.

In order to strengthen monitoring and compliance of the applicable regulatory provisions by market intermediaries and to improve enforcement power of the regulators, Regulations governing System Audit (Regulatory Compliance) of the Brokers of KSE were introduced.

In continuation of the efforts to introduce liquidity in the market and to promote securities lending and borrowing through encouraged short selling, amendments were approved to the Regulations for Short Selling under Ready Market, 2002 to allow short sale at downtick with certain conditions.

Amendments to the Regulatory Framework of the National Clearing Company of Pakistan Limited (NCCPL)

The amendments were approved to the NCCPL Regulations for the following:

- For revision in eligibility criteria for Non Broker Clearing Members whereby institutions with a short-term credit rating of B may also be admitted as a clearing member subject to additional requirements in the form of extra 30% exposure margins as safeguard against any incremental risk arising from lower credit rating. This measure is expected to attract maximum number of institutions towards direct settlement of trades through the Institutional Delivery System;
- To allow clearing members (CMs) to select more than one bank as designated branch and facilitate settlement of money obligation from more than one designated bank account. The amendment will facilitate CMs for funds transfer and help them avoid any late payments to NCCPL;
- To enhance transparency and minimize the potential misuse of the negotiated deal market, it was made mandatory for all transactions carried out through negotiated deals functionality to be settled through the NCCPL;
- The eligibility criteria for securities eligible for the Securities Lending and Borrowing (SLB) was revised to allow execution of lending and borrowing transactions in non-SLB eligible securities through the SLB portal in addition to the already eligible SLB securities. This has resulted in a centralized settlement system in light of implementation of the CGT regime and will facilitate the NCCPL in keeping a complete track of movements in the National Clearing and Settlement System (NCSS) eligible securities for proper computation of the CGT.

Amendments to the Regulatory Framework of the Central Depository Company of Pakistan Limited (CDC)

- In order to bring efficiency in the settlement of off-market trades and to align the entire securities settlement in the stock market, amendments were approved to the CDC Regulations enabling settlement of reported off-market trades on Trade-for-Trade basis;
- In order to ensure complete reporting of all trades in unlisted TFCs to the platform established for the purpose, amendments were approved to the CDC Regulations whereby the movement in unlisted TFCs has now been made subject to prior reporting;
- Previously, there was no provision in the CDC Regulations empowering CDC to take disciplinary action where an issuer failed to appoint independent Registrar/Transfer Agent (R/TA) as per the requirement of the Companies Ordinance, 1984. Hence, the amendments were approved to introduce a framework whereby effective entry requirements have been specified for an R/TA being an important CDS element and to ensure adequate consequent action in the event of change in the status of an R/TA.

In addition, the amendments were approved to the regulatory framework of the stock exchanges, CDC and NCCPL relating to the joint procedures to be followed by these entities in case of any enforcement/administrative action taken by a stock exchange against its members on account of violations of relevant laws and regulations. The procedures among other aspects also ensure immediate dissemination of any such actions to the other related entities.

Amendments to the Regulatory Framework of the Pakistan Mercantile Exchange Limited

In order to introduce the concept of market makers for promoting liquidity and investors' confidence through enhanced profitability, reduced volatility in prices and efficient execution of orders, the regulations governing market makers were approved for the PMEX.

Development of New Products/Systems/Markets

Development of Equity and Derivative Markets

To add depth to the market and provide diverse range of investment alternatives, various new product/system development initiatives were undertaken by the SECP during the year. The regulatory framework was introduced for enabling the launch of Exchange Traded Funds (ETFs) and Index-based Options Contracts in Pakistan. The framework was finalized after extensive consultation with relevant stakeholders to conclude the product and business model of each product and framed in line with the international standards best suited to the local market needs.

- An ETF is essentially an open-end index tracking exchange traded fund, units of which are available to investors for trading on the exchange like any other listed security. ETFs are globally popular investment products which allow investment in diversified portfolio of securities tracking a benchmark index and provide investors with benefits such as trading flexibility, overall portfolio diversification and transparency.
- Options are popular derivative products that help create orderly, efficient, and liquid markets, and give flexibility, leverage and risk minimization to investors. An option contract essentially gives its holder a right but not the obligation to buy or sell an underlying asset on a future date at a predetermined price. Based on expectations and prevailing market conditions, the option holder can either exercise the right and book profits from buying/selling the underlying at a price more favorable than the market price or let the right lapse if he thinks exercising the same will not benefit him. Like other derivative instruments, options are also tradable and the option holder can sell the option to exit the market earlier than maturity. Because of their unique risk/reward structure, options can be used in many combinations with other option contracts and financial instruments to create a hedged or speculative position.

Development of the Debt Capital Market

For the development of the debt capital market, the Bonds Automated Trading System (BATS) at the stock exchanges was revamped along the lines of the Bloomberg-based E-Bond with various system enhancements for facilitating price discovery process of debt instruments and price negotiation between the market participants. Further, to facilitate investors trading in Term Finance Certificates (TFCs) listed at different exchanges, regulatory framework was introduced for facilitating inter-exchange trades in listed TFCs. A broker-to-broker functionality was introduced in BATS which enables brokers to settle their inter-exchange trades directly with the National Clearing Company of Pakistan Limited (NCCPL), resulting in greater efficiency and transparency in the trading and settlement process. Also, a centralized platform was developed at the NCCPL for mandatory reporting of trades executed in the unlisted TFCs, which provides access to real-time trading information in un-listed TFCs and thereby provides better price discovery and transparency.

Development of the Commodities Market

The commodity futures markets play a pivotal role in reducing price volatility, assisting price discovery and bringing greater balance in the supply and demand of commodities in the economy. In line with the furtherance of these objectives and to fulfill the hedging requirements of various groups of investors, new commodities futures contracts were introduced at the Pakistan Mercantile Exchange Limited (PMEX) in sugar, wheat, crude oil (10 barrel), silver (100 ounces), silver (10 tola), silver (10 ounces) and gold (10 ounces).

Developmental Activities

Structural Reforms/Demutualization of Stock Exchanges

The Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012, was promulgated on May 7, 2012. The Act provides a framework for the corporatization, demutualization and integration of the stock exchanges and envisages that the stock exchanges shall stand corporatized and demutualized within 119 days of its promulgation. The implementation of various requirements of the said Act is presently underway and the stock exchanges will achieve the corporatized and demutualized status shortly.

The demutualization will lessen the conflicts visible in the existing mutualized setup where the brokers enjoy rights of ownership, decision-making and trading. It will support enhanced governance and transparency at the stock exchanges and bring greater balance between the interests of various stakeholders by clear segregation of commercial and regulatory functions and separation of trading rights and ownership rights. After demutualization, the Pakistani stock exchanges will be in a better position to attract international strategic partners and good quality issuers.

Measures to Encourage Liquidity

To ensure easy access to financing and liquidity to the market, amendments were approved to the Securities (Leveraged Markets and Pledging) Rules, 2011, thereby removing practical hindrances and creating flexibility for margin financing and margin trading products. Through the amended rules, the cash margin requirements were rationalized, individual investors were allowed to participate as financiers in the margin trading market and waiver was granted to the mandatory condition of prescribing minimum liquidity requirement for selecting securities eligible for margin financing.

Also, to promote liquidity in the securities market in line with the international banchmarks and to enhance capacity of doing business of the stockbrokers, the units of the Central Depository Company (CDC) eligible money market open-end collective investment schemes and T-Bills were approved as eligible collateral against margin requirements of brokers.

Rationalization of CGT

In line with the government's objective of documenting all incomes and sectors of the economy, to address practical issues and to encourage activity in the securities market, the SECP proposed revamping of the CGT. Accordingly, Finance (Amendment) Ordinance, 2012, was promulgated on April 24, 2012 and the Income Tax Rules are also in promulgation stage. Under the revised CGT regime, the NCCPL shall act as a withholding agent to deduct and deposit CGT from investors' transactions while providing an automated and efficient mechanism for the calculation, deduction and deposit of tax.

Governance, Transparency and Risk Management Measures

- To implement a robust anti-money laundering/combating the financing of terrorism regime in the Pakistani capital market in light of FATF recommendations, effective regulatory regime/policies for Know-Your-Customer (KYC) and Customer-Due-Diligence (CDD) were introduced and requisite regulatory amendments were made to the General Regulations of the stock exchanges.
- With the objective of fostering good governance principles and practices in the corporate sector and following a process of extensive consultation with the stakeholders, the SECP introduced a new Code of Corporate Governance for the listed companies, which incorporated international good governance practices and standards. The new code has been introduced for further improving and raising standards of corporate governance taking into account its dynamic nature and to keep pace with the constantly evolving corporate sector and financial markets.

Future Plans/Work in Progress

The SECP had earlier drafted a three-year Capital Market Development Plan (2012-14) after extensive consultation with the relevant stakeholders and detailed analysis of our markets in comparison to various other developed jurisdictions. The plan identified essential areas of key structural and regulatory reforms including measures for the development of equity, derivative, debt, commodities and currencies markets, development of Shariah-compliant investment alternatives, measures for improving governance, risk management, efficiency and transparency in capital market operations and expanding the market outreach. Some areas of the plan that would be focused upon in the coming years include the following:

- In line with globally recognized capital market structures and best practices, efforts have been initiated for NCCPL to function as Central Counter Party with the establishment of a settlement guarantee fund, and consolidation of risk management at the NCCPL.
- For developing the commodities market, the SECP may explore the possibility of allowing new commodity exchanges to function in the country, as this market segment promises potential which is not being fully realized. The said measure will also facilitate a healthy competition and business generation in this segment while contributing to greater market outreach to the investors.
- For developing an Islamic capital market in line with best global practices, the SECP is contemplating the establishment of a Shariah Board comprising of eminent Islamic scholars and market professionals to ensure that all products/services offered under this umbrella are in conformity with the Shariah principles. Also, efforts will be made for consolidation of existing Islamic institutions and development of innovative Shariah-compliant institutions, products and services in order to deepen the capital market.
- Regarding new product/system development, the future SECP agenda aims at boosting activity in the index futures market by achieving cross-listings of derivatives based on foreign indices at the Pakistani stock exchanges. Further, avenues are being explored for introducing the latest risk management techniques including introduction of the Standardized Portfolio Analysis of Risk (SPAN) margining regime in the derivative market segments. For investors in the commodities segment, efforts will be made for introduction of new futures contracts in commodities like cotton seed, oil cake, crude palm oil, maize, and rolling currency contracts on foreign currency exchange rate pairs.

- To accelerate growth in the debt market in coordination with relevant stakeholders, the possibility of listing of government debt instruments at the stock exchanges and integration of National Savings Scheme instruments into the mainstream capital market will be explored.
- Further, to promote transparency and price discovery of debt securities and to minimize pricing issues of debt securities, establishment of an independent Bond Pricing Agency (BPA) conforming to international standards is in the pipeline. The BPA is expected to contribute to stimulating activity in the primary and secondary debt markets, increasing market depth, reducing information asymmetry, increasing credibility of financial statements through accurate asset-liability valuation, product development etc.
- From the standpoint of enhanced transparency, efficient record management and improved supervision, a Centralized KYC Registration Organization will be established for registration and maintenance of investors' KYC records in line with the best international practices pertaining to KYC and CDD policies. The said KYC records will be available for access by all market intermediaries in the stock market and the mutual fund sector. This measure will assist in removing the duplication presently faced in the KYC process by bringing uniformity to the same.

A Woodpecker demonstrating its special skills

Pakistan's financial service industry is banking centric, and dependence of the entire financial system on the banking sector not only makes it more vulnerable but also resists the scope for innovation and introduction of new financial products. It is imperative to promote an alternative Non-bank Financial (NBF) system to diversify the inherent systemic risk and to enhance the resilience of the financial system. To this end, the SECP is revisiting the regulatory regime for the NBF sector in consultation with stakeholders.

Specialized Companies Division

Annual Targets & Achievements – Supervision Department, Specialized Companies Division

Targets
- 100% offsite review of NBFIs on a quarterly basis including review of monthly online returns / fund manager reports. Every entity to be reviewed every quarter
- 73% of the assets of the NBFI sector to be inspected (30 entities out of 67, i.e., 45% coverage in number of entities during 2011-12

Achievements
- Every NBFI was reviewed each quarter, hence each entity was reviewed four times in 2011-12
- Thirty entities inspected, covering 66.15% of assets of the NBFI Sector

Highlights
- Enforcement manual was drafted and onsite inspection manual was upgraded
- Every NBFI was reviewed each quarter

Targets
- Holding meetings with management/ sponsors/board of directors of problematic NBFC's to work out a viable, practical and time bound plan for revival of these entities
- Targeting reduction of problematic entities by 75%
- Upgrading the existing online information system, on-site inspection manual, and develop enforcement manual

Achievements
- During the year, problematic entities, particularly those facing problems of equity and liquidity, were closely monitored. Dialogues with senior management / board of these entities held, thereby leading to improvement in the financial conditions of certain entities
- Senior Management/Board of problematic entities were rigorously followed for solution to problems
- Improvements in Specialized Companies Return System (SCRS) were introduced, onsite inspection manual was upgraded and enforcement manual was drafted

Specialized Companies Division

The specialized Companies Division comprises of two departments: Supervision Department and Policy, Regulation and Development Department.

Supervision Department

The Supervision Department is primarily responsible for offsite surveillance and monitoring, onsite inspections and enforcement for non-banking finance companies and notified entities (NBFCs). In order to ensure effective and smooth functioning of the Supervision Department, it has been further sub divided into three separate wings, as follows:

- Offsite Surveillance and Monitoring Wing
- Onsite Inspections Wing
- Enforcement Wing

Offsite Surveillance and Monitoring Wing

Offsite Surveillance and Monitoring Wing is entrusted with the responsibility to oversee the financial health and regulatory compliance level of the NBFCs and Modaraba Sector continuously on the basis of published information/data received through Specialized Companies Returns System (SCRS). The SCRS is an online system through which NBFCs and Modarbas are required to file their returns on a monthly basis. The submitted returns along with published information are analyzed and examined by the wing in order to prepare reviews of every entity on quarterly basis with a view to verify financial health and regulatory compliance level of the entities under its domain. These reviews cover the following main areas:

- Performance of collective investment schemes
- Risk concentration with respect to asset class and single entity
- Maturity mismatch on the balance sheet of depository institutions
- Examination of classified assets and recoveries made there against
- Liquidity related issues
- Assessment of capital adequacy
- Examination of profitability
- Composition of Board, audit committee and other committees, etc.

In addition to quarterly review of every entity, sector reports are prepared on a monthly basis by the wing for the use of SCD and other divisions/departments of SECP, covering vital statistical information on various aspects of NBFCs and Modarabas, such as:

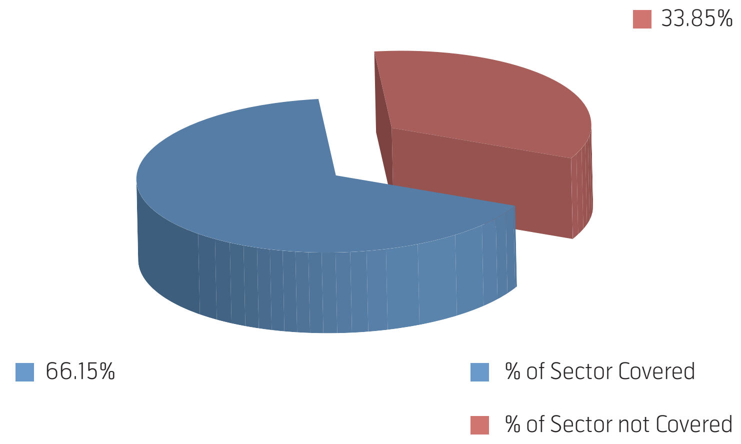
- Overall size of the sector
- Activity-wise size of the sector
- Asset allocation of mutual funds
- Mutual funds' exposure in financial institutions
- Asset, liability and equity position of asset management companies
- Details of investments made by financial institutions
- Size of assets under management of AMCs
- Leverage outlook of investment banks, leasing companies and modaraba sectors
- Non-performing assets of sectors
- Brief profile of pension funds, etc.

The wing also generates leads for conducting inspections, on the basis of findings made during the course of offsite examination. The findings observed during scrutiny of an entity are reported to SCD-Enforcement wing for further action. During the year 2011-12, SCD Offsite Surveillance Wing examined each entity on a quarterly basis; hence, each entity was reviewed about four times in the year.

Onsite Inspection Wing

Onsite inspection wing conducts inspection of NBFCs and Modarabas, playing a vital role in ensuring that SCD-Supervision Department efficiently and effectively monitors the entities under its domain. The entities are selected on the basis of risk and thorough examination of their financial information available with the SECP. The onsite inspections are mainly focused on the entity's financial condition, business performance, internal controls, corporate governance and compliance with regulatory framework. The final inspection report is sent to Enforcement Wing of SCD for further action. During the year 2011-12, the Onsite Inspection Wing has conducted inspection of 30 entities out of total 69 entities under its domain. This includes 20 Asset Management Companies/Investment Advisors, 3 Investment Banks and 6 Modarabas and one House Finance Company, covering slightly over 66 % of total assets of overall NBFCs and the Modaraba sector.

Inspection Coverage of NBFC and Modaraba Sector



Major findings during the course of onsite inspections include:

- Front running/inside trading
- Inadequate capital of the NBFCs especially with reference to the requirements for minimum equity as laid down in the regulations
- Insufficient number of independent directors on the board of directors and the board audit committee
- Weaknesses in internal control system of the entity particularly Internal Audit and Compliance functions
- Deposits by mutual funds on low mark up rates as compared to prevailing market rate, thus depriving the fund's investors from better returns
- Weaknesses in the credit approval system and lack of documentation in this regard in lending institutions
- Incoherent methodology of reporting fund returns and inaccurate information in the fund manager reports
- Weaknesses in investment decision making process, research and risk management function
- Inadequate provisioning of non-performing assets
- High concentration of investments by group companies in the funds under management and lower concentration of retail/ individual investors
- Failure of the Investment Committees of various AMCs to ensure meticulous compliance of the requirements of the regulatory framework particularly relating to the documentation of investment decisions
- Inadequate compliance with the requirements enunciated under Circular 12 of 2009 pertaining to Know Your Customers (KYC)
- Other violations and non-compliances with the applicable regulatory framework

Enforcement Wing

Enforcement function is vested with the responsibility to take appropriate action(s) mainly on the basis of reviews or reports on NBFCs prepared by offsite surveillance and monitoring wing and onsite inspection wing. A thorough scrutiny of these reports is carried out and the observations/violations reported therein are independently assessed on the basis of relevant evidences. Consequently, appropriate enforcement action is initiated as per applicable rules and regulations on the respective observations/violations. The tasks performed by the wing are given as follows:

- Issuance of warning /compliance letters, Directions, Show Cause Notice(s) and Order(s)
- Independent review of information submitted by entities especially entities under severe financial and operational distress, where review is required more frequently
- Regular review of public announcements
- Cognizance of complaints received from investors/depositors/lessees etc.

During the year 2011-12 the following major actions were taken:

- Order issued on violation of Section 38(a) of the NBFC Regulations, 2008, for failure of an AMC to manage a fund to the best of its ability in the interest of unitholders
- Actions on violations of provisions of the Companies Ordinance, 1984, and relevant regulatory framework and inconsistent disclosures by AMCs in fund manager reports
- Action taken on lower markup rates offered on deposits kept by certain mutual funds with banks resulting in re-negotiation of markup rates hence improving funds' return
- Issues relating to under-performance of funds were taken up with the AMCs
- Pursued the management and board members of entities in financial and operational distress to enhance/expedite efforts to improve the condition of the respective NBFC, settle financial obligations towards individuals and institutions and to meet minimum equity requirements as laid down in the regulations
- Handled complaints of depositors/lessees/investors etc.

Future Plans

The Supervision Department aims to further enhance its efficiency and effectiveness through:

- Further improving upon various areas of SCRS, particularly those relating to filing of balance sheet information of modaraba management companies, filing of returns by pension funds, etc.
- Enhancing scope of offsite reviews by including more areas pertaining to corporate governance
- Further standardizing the offsite surveillance function via introduction of review checklists for different areas
- Regular/frequent inspection of high risk entities, while low risk entities to be inspected less frequently
- Further curtailing upon the time required for finalization of inspection reports
- Adopting measures through which effectiveness of enforcement actions can be enhanced
- Improving upon the salient features of sector report and developing a system through which it can be made available to the senior management and Commission for their information and reference
- Upgrading the onsite inspection manual
- Development of an information portal, in which documents pertaining to offsite reviews, onsite inspection/investigation reports, licenses/permissions granted, directions/show cause notice and orders issued and other correspondence relating to enforcement actions pertaining to the SCD will be uploaded for quick reference of the senior management

Annual Targets & Achievements – Policy, Regulation and Development Department, Specialized Companies Division

Targets

- Facilitating growth of mutual fund sector and VPS through existing and new products and creating awareness about these saving products
- Empowering unit holders of mutual funds and bring the trustees of mutual funds under regulatory ambit
- Revisiting the Modaraba framework and suggest appropriate changes
- Exploring the possibility of revival of NBF sector by considering activity based regulatory regime

Achievements

- To facilitate growth, new products such as exchange traded funds, dual NAV fund, CPPI based capital protected fund, government securities based capital protected fund, fund investing in foreign ETFs, etc were introduced

  As a result, assets of mutual funds & VPS increased by 41% & 76% respectively. Additionally, assets under portfolio management also increased by 31%
- Concepts like unit holders' meeting, voting through post, registration of trustees of mutual funds, requirement of 90 days prior notice to unit holders for any material change, transfer of management rights under specific circumstances, fund winding procedure and ban on management fee sharing were introduced
- The amendments proposed in the Modaraba Ordinance approved by the parliament were notifed

Highlights

- Mutual fund industry grew by 41%.
- Voluntary pension industry increased by 76%.
- Unit holders of mutual funds empowered through voting rights.
- Introduction of new types of mutual fund e.g dual NAV fund, CPPI based capital protected fund, government securities based capital protected fund, exchange traded funds, etc
- Trustee of mutual funds brought under regulatory ambit.
- Shariah compliance and audit mechanism was introduced.
- Amendments in the Modaraba Ordinance approved and notified.

Targets

- Considering introducing an appropriate regulatory regime for non-deposit taking and non-listed NBFIs in order to promote SME, microfinancing and Islamic NBFIs
- Implementing, if feasible, a new regime for centralized regulation of investment advisory services
- Revising regulations for REITs and private equity business

Achievements

- In order to achieve the targets stated above, a committee comprising of leading market professionals was formed to furnish recommendations for revival of NBF sector, promotion of non-deposit taking & non-listed NBFCs, centralized regime for investment advisory services and revised regime for REITS and private equity. The committee after thorough review of the existing regulatory framework, international best practices and detailed deliberations prepared initial draft report.

  The final report of the committee will be shared with all the stakeholders. The agreed set of recommendations will be implemented after completing the public consultation process

Specialized Companies Division

Policy, Regulation & Development Department (PRDD)

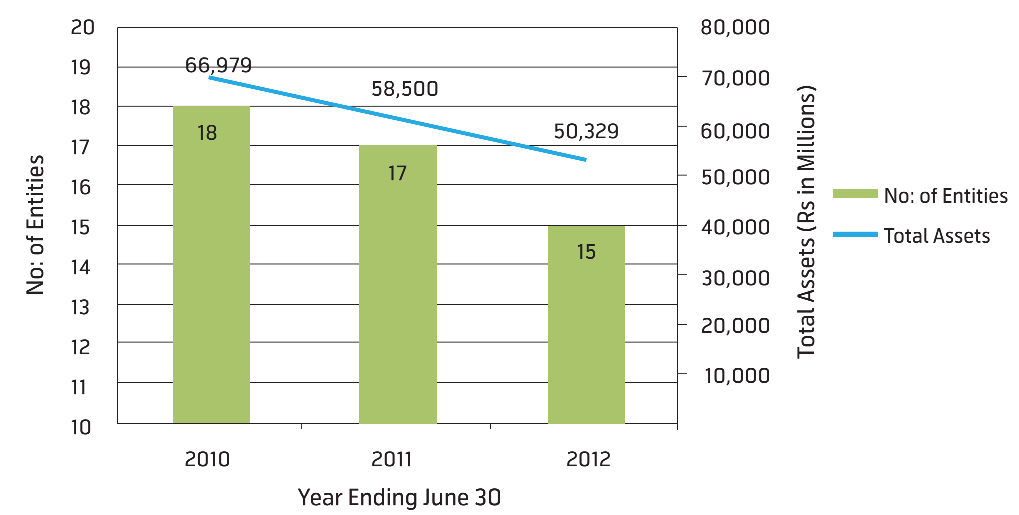
The Policy, Regulation and Development Department (PRDD), headed by an executive director, is responsible for licensing, registration, provision of comprehensive regulatory framework and granting necessary regulatory approvals for non-Banking Finance companies (NBFCs) and modarabas. The NBFCs comprises of investment finance companies, leasing companies, housing finance companies, asset management companies (managing mutual funds, pension funds and also providing investment advisory services), fund management companies providing private equity and venture capital fund management services and REIT management companies.

1. Non-Bank Financial Services

In view of the activities performed, the Non-Bank Financial (NBF) sector under the SECP's ambit has been divided into two clusters, i.e., Non-Bank Financial services (mainly deposit taking and lending activities) and fund management services. This section deals with the entities engaged in providing Non-Bank Financial services.

Non-Bank Financial services are being provided by leasing companies, investment finance companies (Investment Banks) and housing finance companies. As of June 30, 2012, there were 8 leasing companies and 7 investment finance companies. Presently, no entity under the ambit of SECP is providing housing finance services. The total asset size of entities engaged in providing Non-Bank Financial services was Rs50.329 billion as on June 30, 2012 as compared to Rs58.500 billion as on June 30, 2011. Entities engaged in non-bank financial services constitute only 0.5% of Pakistan's total banking and Non-Bank Financial sector assets as on June 30, 2012.

Non-Bank Financial Services Asset Size



The size of entities engaged in providing Non-Bank Financial services is continuously shrinking and their contribution to the financial system is well below the requisite level.

On a macro level, this can be attributed to the fact that Pakistan's financial sector is banking centric with the NBF sector accounting for only 11.1% of the banking and Non-Bank Financial sector's total assets. This dependence on the banking sector makes our financial system vulnerable to risks through lack of diversification and also restricts the scope of product innovation.

On the micro level, the declining trend can be attributed to the fact that these entities are facing a variety of challenges such as absence of a level playing field, limited resource mobilization, inability to tap debt and equity markets, high cost of borrowings, liquidity problems, dearth of skilled human resource, limited branch network, etc. Further, another reason for decline in size of investment banking is their continuous focus on quasi banking activities instead of developing competencies for delivering customized services through product innovation and focusing on non-fund based services.

Future Plans

The development of a strong NBF sector is imperative as it will not only promote savings by offering different asset classes to the investors but will also provide alternative fund raising opportunities to the participants of financial system. A strong NBF sector will also decrease systemic risk by reducing dependence on banking sector.

In order to ensure the development of the NBF sector, there was a need for an in-depth review of the whole business model and prevalent regime with a fresh perspective. In view of this objective above and to develop Non-Bank Financial services sector in line with the best international practices, the SECP in consultation with prominent market participants and other stakeholders is considering revamping the entire prevalent regulatory framework and the following are the broad areas being reviewed:

- Concept of activity based regulatory regime for Pakistan's financial markets. This concept, in line with international practices, envisages regulation of capital market activities by capital market regulator and regulation of deposit taking/financing/lending activities by banking regulator

- Redefining of investment finance services model with more focus on non-fund services and product innovation

- Framing comprehensive regulatory regimes for unregulated activities such as investment advisory services, corporate advisory services, etc.

- Creating a more conducive regulatory regime to promote the concept of mid-sized non-deposit taking NBFCs

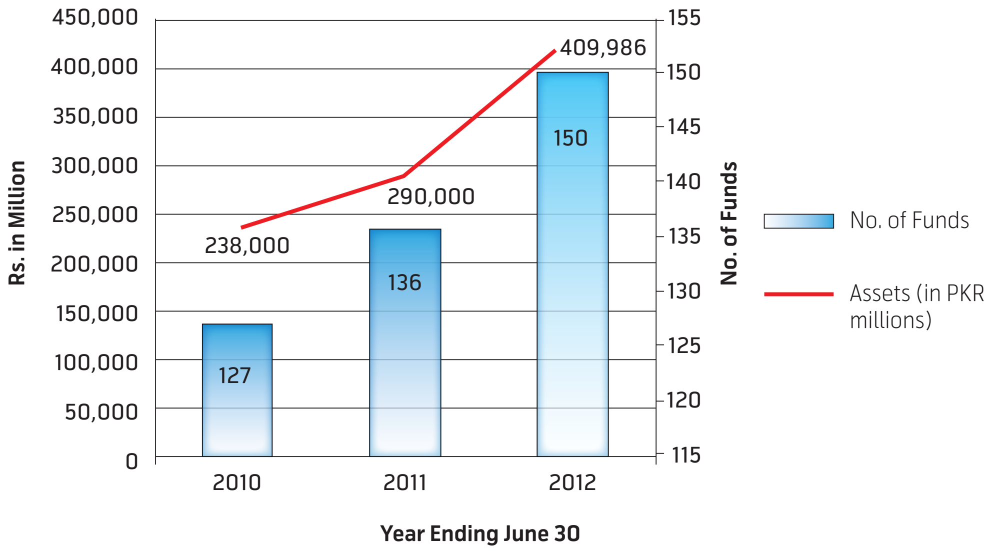
- Introducing various risk management measures such as Capital Adequacy Ratio, rationalizing leveraging capacity, etc. to protect the interest of the various stakeholders of these entities especially, depositors

The above measures are aimed not only at addressing the issues currently faced by the entities undertaking non-bank financial services but would also benefit the overall financial system in terms of better resource mobilization, level playing field, more focus on product innovation, development of priority sector and reduction in systemic risk. However, these suggested measures require extensive consultation with all the stakeholders of financial markets and based on their feedback, any reforms would be considered for implementation.

2. Mutual funds, Investment Advisory and Asset Management

As of June 30, 2012, the total size of the mutual funds industry stood at Rs409.986 billion. Overall, the industry showed a growth of almost 41% during FY2011-12. The total number of funds stood at 149 on June 30, 2012 as compared to 136 on June 30, 2011 and 127 on June 30, 2010.

Mutual Funds Industry in Pakistan



Owing to risk aversion, investors preferred investment in money market funds and government securities funds which presently constitute 54% of the total industry size.

During the period, the SECP took certain measures to facilitate the industry as well as the unitholders of mutual funds. The SECP, after extensive consultation with the stakeholders, introduced various amendments to the regulatory framework related to the mutual fund industry. Specific measures aimed at safeguarding the interest of the unitholders of mutual funds and for building overall investor confidence, during the year are:

- Enhancement of unitholders' rights in case of any material change impacting fund's category, investment objective or other key feature such as management fee or back-end load etc
- Empowerment of unitholders to decide future of the fund, including change of management company, in case of suspension of redemption of units of over 15 working days
- Introduction of detailed requirements and procedures for convening meeting of the unitholders of open end and certificate holders of closed end schemes pursuant to implementation of requirement of unitholders' meeting
- Improved transparency in operations and winding-up of a mutual fund by prescribing a detailed winding-up procedure
- Better regulatory oversight of trustees of mutual funds by introducing requirement for registration with the Commission and enhancement of trustee's role to better safeguard unitholders
- Improved supervision of distributors of mutual funds by requiring registration with MUFAP as a registered service provider
- Addressed possible conflict of interest between AMC and mutual fund, by prohibiting mutual funds from subscribing to an issue underwritten, co-underwritten/ sub-underwritten by group companies of its AMC

- Curbed the malpractice of management fee sharing, which hampers broadening of investor base in mutual funds, by prohibiting AMCs not to directly or indirectly share any fee earned on the mutual funds with its unitholders

- Improved transparency in operations of mutual funds was ensured by requiring all AMCs to disclose contingent WWF liability and its impact on NAV and return of the fund in the monthly FMRs, advertisements and offering documents

- Imposing requirement on AMCs (as part of the overall NBF sector) and in accordance with the anti-money laundering measures, to report the Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs) to the Financial Monitoring Unit (FMU)

Some initiatives of the Commission provided flexibility to the asset management companies in terms of conducting the asset management business. These were:

- Flexibility in launching new mutual funds offered through replacement of seed capital requirements with minimum fund size of Rs 100 million

- Allowed operational flexibility for index funds, fund of funds and capital protected fund by waiving group company investment limits. Furthermore, exemption provided to fund of funds from per party investment limit and passive funds have also been excluded from the per fund manager limit of 3 funds

- Reduction in limit of annual equity brokerage commission (payable by a mutual fund to a single broker) from 30% to 15% to promote competition in brokerage services

As part of its mandate to develop and bring the Pakistani capital market on a par with other regional and international jurisdictions, the Commission took following initiatives:

- Introduction of a comprehensive regulatory framework governing the listing, trading, clearing and settlements for exchange traded funds (ETFs)

- Permitted exposure in emerging and developed markets to specific asset allocation funds

- Defined life fund of funds with capital protection based on the constant proportion portfolio insurance methodology and capital protected fund with capital protection based on government ijarah sukuks

Future Plans

- **Proposals for Enhancing Retail Penetration**

The investor base of the mutual funds industry, particularly the participation of the retail investor in mutual funds, so far has been lackluster. One of the key areas where SECP intends to focus its efforts with full vigor is measures for improving investor base of the industry.

Dedicated efforts are being made by the Commission towards investor education programs and awareness seminars on a nation-wide scale. The Commission is considering specific measures for encouraging the AMCs to enhance their retail base. These considerations include:

(i) Allowing AMCs to Charge Certain Percentage of Marketing and Selling/Distribution Expenses to a Mutual Fund

One of the primary impediments to having higher investor base of mutual funds is the substantial expenses incurred in reaching out to the public. Owing to the high level of associated fixed costs, AMCs mainly focus their efforts on the large ticket institutional investors which are relatively easier to access.

To address this problem, SECP is considering allowing the AMCs to charge a fixed proportion of distribution and marketing expenses to the mutual funds subject to proper checks by the trustee and compliance of some other conditions. It is expected that by offering such incentives, fund size will increase leading to improved economies, benefiting all the stakeholders particularly retail investors.

(ii) Allowing Certain other Expenses (e.g. NAV Calculation, Shariah Advisory Fee, etc.) to be Charged to Mutual Fund

International review of multiple jurisdictions reveals that expenses such as registrar services, accounting and valuation services charges or shariah advisory fee are charged to a mutual fund. On similar lines, SECP is also considering these to be charged to a fund provided the overall expenses of the fund remain within a pre-specified limit.

(iii) Development of Branch Network by AMCs

Given the low level of investor awareness about mutual funds, one of the prerequisites for higher retail participation is physical presence of AMCs. To date, AMCs have very limited network to enable them to sell mutual funds. To address this, the SECP is considering imposing requirements for AMCs to have presence in multiple locations (whether through branches, retail outlets, point of sale, etc.).

- **Introduction of Expense Ratio**

Based on practice being followed in multiple jurisdictions, the Commission is considering introducing the concept of total expense ratio with limits, including cap on management fee and admissible expense that can be charged to a fund and their disclosure in the financial statements.

- **Multiple Fund Management Activities**

To further strengthen and deepen the AMCs business, the Commission is considering allowing the AMCs to undertake multiple activities under a single license, subject to certain requirements (such as additional capital, requisite and experienced human resource to efficiently work in requisite areas, segregation of duties, etc). This may enable an AMC to carry out multiple fund management activities such as mutual funds, REITs and PE & VC funds subject to compliance with other regulatory conditions.

- **Fund Manager's Skill Set**

To enhance the capacity building of fund manager and to ensure high ethical standards and quality human resources in the industry, mandatory licensing or certification requirements may be introduced for fund managers and other key personnel in consultation with the Institute of Capital Markets and the Institute of Corporate Governance.

- **Revamping of Open-End Funds Financial Statements**

The financial reports of open end funds will be redesigned to reflect the true performance for facilitating investors in making informed investor decisions.

- **Advertising Guidelines**

The Commission will issue specific standardized guidelines for publication of advertisements or other marketing material by the AMCs with a primary objective of safeguarding investors through fair and adequate disclosures.

- **Investment Managers Code of Conduct**

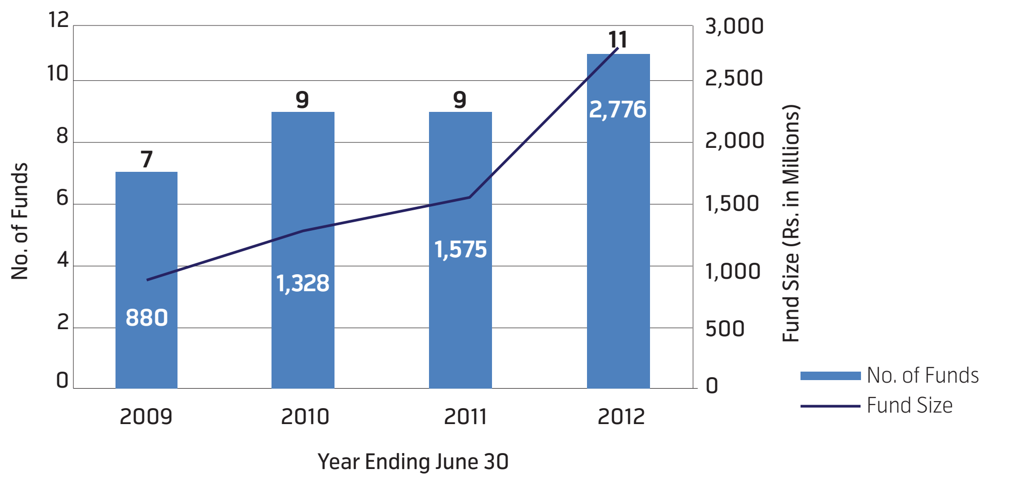
The Commission is in the process of framing a detailed code / requirements for investment managers to ensure fair dealing and transparent trade practices. Such requirements will cover multiple aspects to ensure better governance, particularly areas such as employee trading policy, risk management practices and proxy voting on behalf of their clients.

The agreed set of measures will be shared with market players for feedback and comments. In light of the recommendations which come out after discussions with market participants and feedback from the general public, the mutual funds framework would be amended for fostering market growth.

3. Voluntary Pension System (VPS)

The VPS remained on the growth trajectory during the year and the net assets of the private pension schemes grew by 76% from Rs1.575 billion to Rs2.776 billion. One new company, being eligible in terms of the prescribed criteria for pension fund management, was registered under the Voluntary Pension System Rules, 2005 (the 'VPS Rules'). The number of fund managers had increased to seven by the close of current financial year. The growth pattern is reflected in the table below:

Voluntary Pension Funds



The SECP has been endeavouring to bring parity among retirement schemes and a number of measures have been introduced to this effect in the tax regime governing the VPS and other retirement schemes. However, certain aspects are yet to be reformed. In this regard, proposals were drafted in consultation with the industry and followed up with the FBR to secure equitable treatment for all retirement schemes. The proposals submitted for the purpose included:

a) Exemption from payment of tax from income received on periodic withdrawal of balance accumulated in a pension fund on attaining the age of retirement.

b) Tax neutral transferability of accumulated balance between VPS and other occupational retirement schemes.

The proposal at a) above was approved by the government and that at b) has been accepted partially. Under the revised tax law, tax-free withdrawal from the contributions made in the VPS out of provident fund has been permitted, thereby bringing parity in the tax treatment between provident fund and VPS. However, tax-free transfer of balance from gratuity and superannuation funds to VPS has not yet been acceded to. The efforts will continue to secure agreement of the government on remaining aspects so as to ensure equality among retirement schemes, promote funded pension schemes, encourage savings, reduce financial dependence of aged public on government and relieve government from the growing burden of arranging relief programmes.

Simultaneously, the VPS framework was reviewed for improvement and updating as a number of changes have taken place in the market and the fund management practices since 2005. The amendments are aimed at the following improvements:

- **Enabling Provisions**
  - (i) To allow participants to change a pension fund
  - (ii) To make provisions for involving industry in development of performance benchmarks for pension funds
  - (iii) To make provision for transfer of balance from an Approved Occupational Savings Scheme to Voluntary Pension System
  - (iv) To rectify oversights and omissions in the existing rules

- **Conformity with the Companies Ordinance and NBFC and NE Regulations**
  - (i) To align with the time available to the companies for submission of their quarterly and half-yearly accounts
  - (ii) To prescribe valuation methodology for arriving at net assets of a pension fund
  - (iii) To stipulate clearly the role and obligations of trustees

- **Synchronization with Tax Law**
  - (i) To reflect the enhanced limit of lump sum withdrawal (i.e. from 25% to 50%) allowed through the recent amendment made to the tax law
  - (ii) To align eligibility criteria for participation in a pension fund with provisions of the Income Tax Ordinance, 2001
  - (iii) To change criteria for eligibility of retirement under VPS Rules

Future Plans

The SECP will endeavour to create awareness among general public about this financial product. This will include interaction with and participation in seminars and workshops organized by financial services industry and the SECP. Also to remain updated on other pension regulatory regimes in the world, the SECP will maintain contact with the International Organization of Pension Supervisors on a regular basis.

The interaction with the FBR will continue in order to secure a favourable investment environment and remove discriminations in tax treatment between pension funds established under the VPS Rules and those set up by employers under labour law or in pursuance of contract of employment.

4. REITs

REIT Regulations were notified in the year 2008 with the objective to provide an enabling environment for retail investors to invest in real estate as well as help fill in the housing gap in the country. These Regulations were prepared after global research and discussions with the industry players keeping in view the market conditions prevailing at that time. Under these Regulations, two companies were licensed to operate as REIT Management Companies (RMCs).

Future Plans

Although the SECP is fully committed to facilitating the launch of REITs in Pakistan, it is conscious of the quality of the schemes so that this asset class could get desired attention from the investors. To this end, the SECP in close coordination with the market participants is considering many reforms in REITs regulatory framework. The reform areas targeted in this regard include:

- Review of fund size and minimum holding of REIT units by the RMC to address the issue of capital constraints and to allow launching of medium size REIT projects having better potential for growth and return
- Speeding up regulatory due diligence process of property by reviewing the approval requirements
- Reduction in minimum capital requirements for RMCs to facilitate entry of professionally qualified fund manager in the REITs business
- Reforming criteria for cities to become eligible for REIT scheme which will result in expanding the domain of REIT eligible cities
- Tackling the issue of over-valuation of property and cumbersome legal process
- Enhancing the role and responsibility of service providers in a REIT framework for better operational oversight and increasing transparency of the product

The agreed set of recommendations will be shared with market players for feedback and comments. In light of the recommendations which come out after discussions with market participants and feedback from the general public the REIT Regulations are likely to be amended for fostering market growth.

5. Modarabas

Modarabas are the pioneering Islamic financial institutions in Pakistan and are operating to implement the financial aspects of the Shariah, in addition to the conventional good governance and risk management. It allows a wide range of Islamic financial products and services under the principles of the Shariah. Currently, most of the modarabas are providing financial services while a few are engaged in the industrial and trading business activities.

Despite the ongoing economic recession, the modaraba sector has positioned itself as a stable form of Islamic financial institution and has continued to perform well. As per the unaudited financial statements of modarabas as of June 30, 2012, the aggregate paid-up fund of modarabas was Rs8.896 billion. The total assets of the modaraba sector stood at Rs29.582 billion against Rs26.393 billion in the corresponding year. Similarly, the total equity of the modaraba sector stood at Rs12.171 billion which shows an increase of Rs0.610 billion as compared to Rs11.561 billion during the previous year. For the FY ending June 30, 2011, out of 26 modarabas in operation, 18 modarabas declared cash dividend to their certificate holders ranging from 1.20% to 73.5%.

Key statistics of modaraba sector as of June 30, 2012, are given in Table A:

Table A

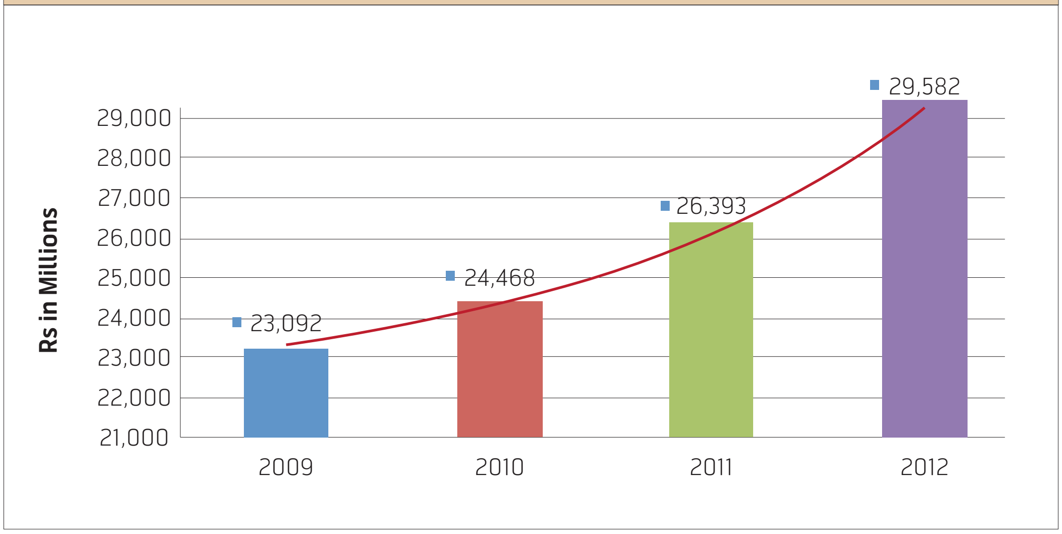
	(Rs in millions)
Number of modaraba companies	40
Number of modarabas (in operation)	26
Number of modarabas under winding-up	05
Number of modarabas under floatation	03
Total paid-up fund*	8,896
Total assets*	29,582
Total equity*	12,171

*Figures based on unaudited financial statements as of June 30, 2012

Major sources of funds for modarabas consist of equity and borrowing from banks and financial institutions mostly on Musharakah basis. The funds generated by modarabas through issuance of Term Finance Certificates, Certificates of Musharakah, etc., amounted to Rs11.151 billion. The funds raised through the said sources were utilized mainly in Ijarah financing, extension of Musharakah and Murabaha facilities and investment in shares of listed companies and trading, etc.

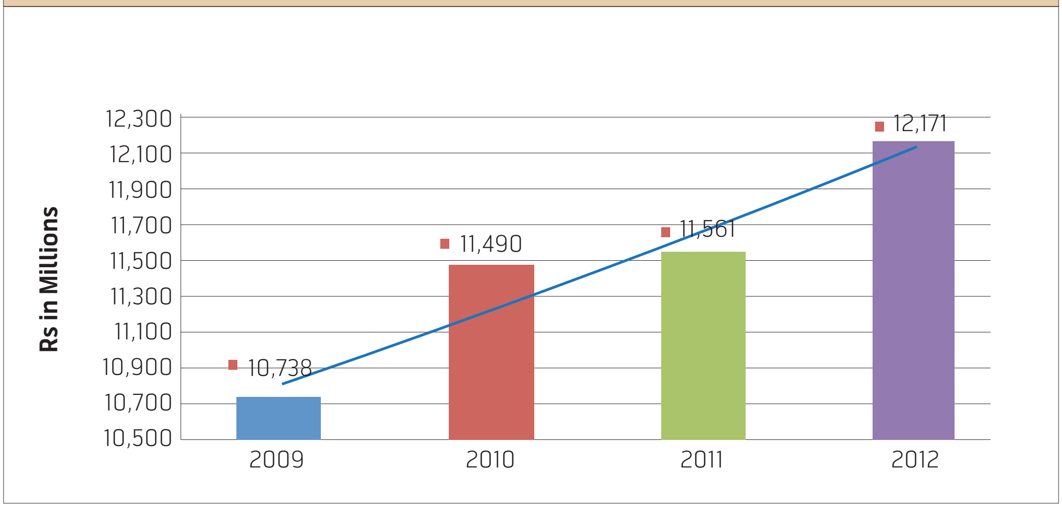
The consistent growth exhibited by the modaraba sector can be seen through the graphical representation given below:

Trend in Assets of Modaraba Sector



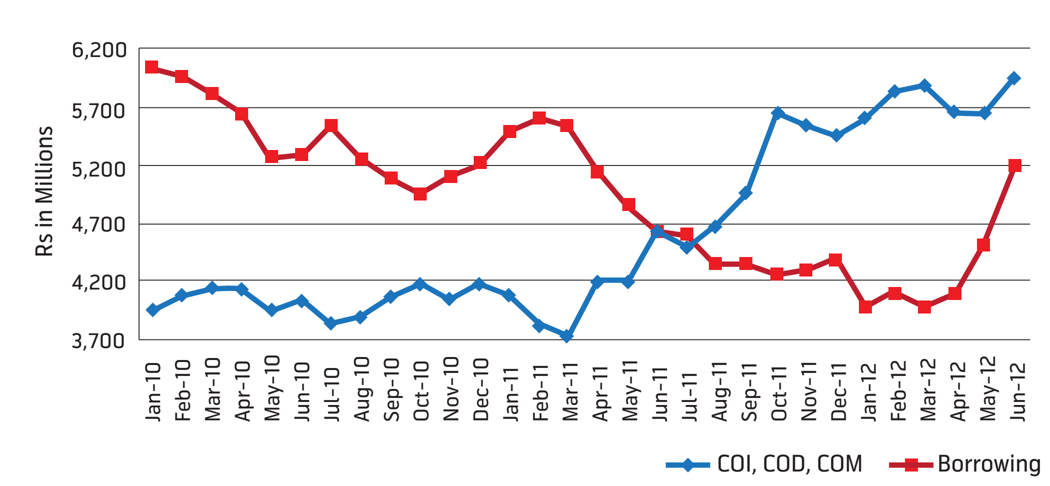
The growth in the modaraba sector has not compromised its profitability and hence we can see a similar trend in total equity of the modaraba sector:

Trend in Equity of Modaraba Sector



The consistent growth in the modaraba sector has developed reasonable investors' confidence. Hence the modarabas have changed their borrowing mix by focusing more on certificates of musharakah (COM) instead of relying solely on bank borrowings. Consider the following trend lines:

Trend in Borrowing Mix of Modaraba Sector



Enforcement Actions

Investors' Complaints

Fourteen complaints received from investors mainly pertained to the following matters:

- Non-receipt of dividend warrants
- Delay in transfer of certificates
- Non-receipt of annual and periodical accounts

Immediate and appropriate actions for resolution of the complaints were taken.

On-site Enquiries of the Affairs of Modarabas

Orders for on-site enquiries of six modarabas were issued under section 21 of the Modaraba Ordinance. The sole purpose of these enquiries was to gauge the true financial health, review performance of the management and the Board, and assess level of compliance of the modarabas with the prevailing regulatory framework. On the basis of the enquiry reports, the following regulatory actions were initiated:

- On the basis of on-site enquires, a show-cause notice under section 31 of the Modaraba Ordinance was issued to the chief executive and directors of a modaraba company.

- On the basis of on-site and off-site enquiries explanation letters were issued to three modaraba companies and their CEOs/directors. After completing the due process of the law, warning letters were issued to five modaraba companies to regularize the irregularities and violations of the modaraba regulatory framework.

- The name of a chief executive/director of a modaraba company was placed on exit control list to ensure that he does not escape the process of the law initiated against him.

Developmental Activities

During the period under review, the following developmental activities were performed:

- **Approval of Shariah Compliance and Shariah Audit Mechanism (Circular 8 of 2012)**

In accordance with the provisions of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, the business of a modaraba shall not be against the Islamic injunctions. However, after floatation of a modaraba there was no mechanism in place to ensure and verify that the business affairs of a modaraba are being managed in accordance with the principles of Shariah. In compliance with the directives of Religious Board, a formal mechanism named "Shariah Compliance and Shariah Audit Mechanism" (SCSAM) was devised and implemented to eliminate the risk or possibility of any violation of Shariah principles by modarabas.

- **Approval of new Resource Mobilization Products**

The SECP is committed to strengthening the Modaraba Sector being an important Islamic financial institution and is keenly focusing on its development through innovation of new Shariah-compliant products to bring level playing field with other financial institutions in the country. In order to provide more avenues for resource mobilization and to cater the liquidity needs of the Modaraba Sector, two new fund raising products namely; Certificate of Investment (Modaraba) and Commodity Finance Certificate were got approved from the Religious Board.

- **Charging of Management Fee by Modaraba Company (Circular 15 of 2011)**

In an earlier circular of 1995, a restriction was imposed on the Modaraba Companies not to charge the management fee from operating profit of the modaraba unless the accumulated losses of the modaraba, if any, are wiped off. In order to bring the charging of management fee in line with the Islamic concept of Modaraba, the said restriction was withdrawn by issuing a circular dated November 30, 2011 according to which the modaraba companies, subject to certain conditions were allowed to charge the prescribed management fee out of the net annual profit of the Modaraba.

- **Letter of Agreement to Ijarah (Lease) (Circular 16 of 2012)**

In order to overcome the practical difficulties, the Registrar Modaraba, with the concurrence of the Religious Board issued the "Letter of Agreement to Ijarah" for the modaraba sector. The agreement would ethically and legally bind the customers of modarabas to obtain Ijarah assets as and when delivered by the manufacturer. The agreement would work as a risk mitigating tool for Ijarah transactions to be undertaken by modarabas with their clients.

- **Short Form of Ijarah (Lease) Agreement (Circular 13 of 2012)**

Keeping in view the practical difficulties faced by modarabas, a new agreement named "Short Form Ijarah (lease) Agreement" was introduced which will be used by modarabas in place of the model Ijarah (lease) agreement in the cases where more than one Ijarah transactions are involved with the same client. The agreement would facilitate modarabas in minimizing unnecessary and lengthy documentation. The agreement would act as a cost and time saving tool for Modarabas while carrying out multiple Ijarah transactions with the same client.

- **Amendments to the Modaraba Ordinance, 1980**

The amendments proposed to the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, were approved in the joint sitting of the Parliament which empowered the Commission/Registrar Modaraba to make regulations and to issue directives, circulars, codes and guidelines for modaraba sector. The strengthening of the regulatory powers of the Commission and the Registrar would affectively safeguard the interests of modaraba investors, bring efficiency in the modaraba management and strengthen the non-banking finance companies sector as a whole.

- **Amendments to the Modaraba Rules, 1981**

In order to strengthen the regulatory framework to safeguard the interests of certificate holders, the Modaraba Companies and Modaraba Rules, 1981, are being reviewed to make these Rules more practicable and comprehensive.

- **Reporting of Suspicious Transactions Reports (Circular 20 of 2012)**

In terms of compliance of the provisions of Anti-Money Laundering Act, 2010, the modarabas were advised to submit suspicious transactions and currency transaction reports to the financial monitoring unit of the State Bank of Pakistan.

- **Reconstitution of the Religious Board for Modarabas**

During the period under review, the term of the office of the members of Religious Board for Modarabas was expired on April 20, 2012. The federal government has reconstituted the Board.

- **Constitution of a new Modaraba Tribunal (Circular 10 of 2011)**

In order to facilitate the litigants the Federal Government, upon request of the Commission, constituted another Modaraba Tribunal at Karachi to try all class of cases under the Modaraba Ordinance within the province of Sindh. The constitution of new Modaraba Tribunal will facilitate the Modaraba sector in speedy disposal of its cases.

Future Plans

- **Amendments to the Modaraba Ordinance, 1980**

In order to remove the practical difficulties and to bring operational flexibilities, further review of the Modaraba Ordinance, 1980 will be undertaken and necessary provisions will be introduced to bring the Ordinance in line with the existing legal framework for non-banking financial regime.

- **Prudential Regulations for Modarabas**

In order to remove the anomalies in the Prudential Regulations for Modarabas and to bring efficiency and a level playing field a comprehensive review of the Prudential Regulations for Modarabas will be undertaken.

- **Explore the Possibility to issue a new Islamic Financial Accounting Standard (IFAS)**

In collaboration with the Institute of Chartered Accountants of Pakistan and in consultation with the NBFIs and Modaraba Association of Pakistan, it is planned to introduce a new IFAS for the modaraba sector in addition to two IFAS already issued.

- **Risk Management Guidelines for Modarabas**

Although, there are plenty of risk management guidelines which are available to the conventional financial institutions, however, the risk profile Islamic financial institutions is different to that of conventional one and the Modarabas are also exposed to that risk. Therefore, it is imperative to explore the possibility to introduce risk management guidelines for the Modarabas to bring in uniformity in their operations and to strengthen their asset portfolio.

Statistics

Detailed Financials of Modarabas for the year ending June 30, 2012 (unaudited) are as under:

Sr. No.	Name of Modaraba	(Rs. in million)				Dividend for 2010-11
		Total Assets	Paid up	Equity	Borrowing (TFCs, & COMs)	
1	Allied Rental Modaraba	2,706	750	1,673	-	30% (Cash) 20% (Right) 10% (Bonus)
2	B.F. Modaraba	122	75	105	-	5.00%
3	B.R.R. Guardian Modaraba	3,034	780	713	1,757	1.80%
4	Crescent Standard Modaraba	158	200	123	22	1.50%
5	Elite Capital Modaraba	187	113	130	-	5.50%
6	Equity Modaraba	602	524	600	-	-
7	First Al-Noor Modaraba	360	210	332	-	8.00%
8	First Fidelity Leasing Modaraba	396	264	357	-	5.00%
9	First Habib Bank Modaraba	871	397	716	-	14.75%
10	First Ibl Modaraba	269	202	217	16	-
11	First Imrooz Modaraba	348	30	120	43	65.00%
12	First Paramount Modaraba	271	59	155	79	21% (Cash) 30% (Right)
13	First Punjab Modaraba	1,914	340	159	1,474	-
14	First Treet Manufacturing Modaraba	1,683	800	1,044	-	6.50%
15	Habib Modaraba	4,564	1,008	2,261	969	20.00%
16	KASB Modaraba	1,640	283	330	1,193	6.50%
17	Modaraba Al-Mali	235	184	184	-	-
18	First National Bank Modaraba	1,973	250	339	1,293	10.00%
19	First Pak Modaraba	79	125	76	-	1.20%
20	First Prudential Modaraba	578	872	508	-	3.00%
21	Standard Chartered Modaraba	6,145	454	960	4,304	17.50%
22	Trust Modaraba	398	298	281	-	-
23	First UDL Modaraba	722	264	514	-	15.00%
24	Unicap Modaraba	5	136	(0)	-	-
25	First Tri-Star Modaraba	252	212	207	-	-
26	First Constellation Modaraba	72	65	68	-	-
	Total	**29,583**	**8,896**	**12,171**	**11,151**	-

Seagull ensures the safety of its family

Without meeting the insurance needs of low-income people, the risks to economic development cannot be minimized. While realizing these needs, the SECP is working with the World Bank to create an enabling environment for the provision of microinsurance in the country.

Insurance Division

Annual Targets & Achievements
Insurance Division

Policy Regulations & Development Targets

- Developing an objective criteria pursuant to Section 12 of the Insurance Ordinance, 2000
- Reviewing the solvency-related requirements
- Drafting new Takaful Rules; laying emphasis on introduction of Takaful Windows
- Conducting market study on the status of microinsurance in Pakistan
- Exercising powers in terms of Section 48(1) of the Insurance Ordinance 2000, allowing only qualified auditors to conduct audits
- Publishing information for investors
- Issuing regulatory directions on AML

Achievements

- Notified the [Insurance Companies] Sound and Prudent Management Regulations 2012
- Amendments made to the SEC [Insurance] Rules, 2002, relating to solvency-related matters
- Notified the Takaful Rules, 2012
- Diagnostic study undertaken with World Bank under a project sponsored by FIRST initiative
- Announced the list of approved auditors
- Published a guidebook on registration of insurance entities and licensing of intermediaries
- Directions issued to insurance companies to combat money laundering

Highlights

- 112 disputes were resolved of policyholders
- The Sound & Prudent Management Regulations 2012
- Microinsurance Diagnostic Study
- Takaful Rules 2012
- New Solvency Regime
- Guidebook for potential investors
- Insurance Companies Return
- Submission System (ICRS)

Supervision & Enforcement

Targets

- Implementing e-filing system for annual/regulatory returns
- Conducting off-site examination and on-site inspection of all companies
- Initiating enforcement actions where necessary
- Following up of cases under litigation
- Monitoring renewals of insurance surveyors
- Resolving policyholders' grievances

Achievements

- Introduced ICRS, which is parallel to manual filing of returns
- Completed the offsite examination of annual accounts along with 2 onsite inspections
- Enforcement actions, i.e., show cause notices, warning letters, orders, were promptly taken
- Cases pending adjudication before the courts were regularly followed up
- 380 authorized surveying officers were registered and 238 surveying companies were granted licenses
- 112 complaints by aggrieved policyholders were resolved

Insurance Division

Sector Overview

The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remained very modest as compared to other jurisdictions while the insurance sector remained underdeveloped relative to its potential. As of December 2011, the industry's total premium revenue stood at over Rs124 billion.

The market is fairly liberalized as 100% foreign ownership and control of insurance companies is permitted with paid-up capital requirements as $4 million, with the condition of bringing in at least a minimum of $2 million in foreign exchange and raising an equivalent amount from the local market. The minimum capital requirements have been increased in a phased manner, though they still remain modest by international standards, at Rs300 million for non-life and Rs500 million for life insurers.

Currently, there are 39 non-life insurers operating in the market, including three general takaful operators and one state-owned company. Approximately, 65% of the market share in gross written premium rests with the top three players. In the CY2011, the sector grew by 16%, whereas the total premium of non-life insurance sector stands at Rs54 billion. In addition, a government-owned reinsurer continues to benefit from a mandatory minimum 35% share in the treaties of non-life insurers.

There are nine life insurers, including two family takaful operators and one state-owned corporation in the life insurance sector. In CY2011, the life insurance market grew by 30%, whereas the total premium stood at Rs70 billion.

There are two dedicated health insurance companies in the market along with two foreign life insurance companies and two non-life foreign companies. The market has witnessed introduction of new products in the lines of health, crop and livestock insurance. New distribution channels such as bancassurance, websales and telesales are also growing rapidly.

Key Achievements

During the period under review, in its quest to meet its primary objectives of protecting the interests of policyholders and facilitating orderly development of the insurance industry, including takaful segment, the Insurance Division focused on various areas, the brief synopsis of which is given below.

Policy Development

(i) Microinsurance

Without meeting the insurance needs of low-income people, the risks to economic development cannot be minimized. While realizing the needs, the SECP is working with the World Bank, under a project sponsored by the FIRST Initiative, to create an enabling environment for the provision of microinsurance in the country. Three high-level missions by the senior staff and consulting experts of the World Bank were carried out during the period under review. In collaboration with the Pakistan Insurance Institute,a one-day seminar on microinsurance was also organized in November 2011, where the foreign as well as local experts presented their vision and strategy for microinsurance development in the country. A diagnostic study has also been completed and published, depicting the state of microinsurance in Pakistan with the demand and supply-side analysis. During the course of the completion of this study, various focus group discussions were carried out across Pakistan with the help of the stakeholders. Based on the findings, a draft regulatory framework has also been developed and shall soon be available for public comments.

(ii) Assessment of Insurance Regulatory Framework

Considering the various risk profiles of insurers and continuously evolving market dynamics, there is a constant need to advance the regulatory and supervisory framework. In line with international best practices and emerging standards, the International Association of Insurance Supervisors (IAIS) prescribes Insurance Core Principles (ICPs), against which a recent broad assessment of Pakistan's insurance laws was conducted revealing that the laws are structured not-so-well and limits the depth of supervisory role. This assessment, supported by FIRST Initiative under the project Pakistan #10025 Microinsurance Regulations - P126189, includes the review of specific short falls in the insurance laws. Following the assessment, rapid work is underway to derive the objective of an upgraded regulatory and supervisory framework, also encompassing enhanced reserves and capital requirements, risk-focused surveillance mechanisms, along with the training and capacity building of supervisory staff.

(iii) Development of Crop and Livestock Insurance

Further to the Crop Loan Insurance Scheme (CLIS) of 2008, and owing to the fact that the global weather pattern is becoming rapidly erratic thereby increasing the frequency and severity of natural calamities, a Presedential Task Force was formed with a mandate to formulate a scheme for crop insurance in Pakistan. The SECP has been an active member of the task force and working to formulate a framework on National

Agriculture Insurance Scheme(NAIS). A draft scheme has also been prepared, which includes the latest estimates of cropping area, cost of production, estimated cost of premiums and various proposals on the sharing of premium subsidies by the federal and provincial governments. This scheme would be available to all farmers of the country involved in the cultivation of five major crops, i.e., wheat, rice, sugarcane, cotton and maize and will provide coverage from sowing to harvest. It will be mandatory in nature and all farmers in the country will be automatically insured, whether they took out loans from the banks or not. The indemnity will be based on the per acre input cost estimates of the Agriculture Policy Institute and the sum insured will be determined on the estimated cost of cultivation. Simultaneously, a similar task force has been formed by the State Bank of Pakistan for the development of a Livestock Loan Insurance Scheme (LLIS). The SECP is also an active member of the LLIS task force, and heading the subgroup of insurance. A draft product has been developed and shared with the stakeholders for the roll-out of the scheme, perhaps on a pilot basis.

(iv) Insurance Industry Reform Committee

It is imperative to promote a robust and financially sound insurance industry to diversify the inherent systemic risk and to enhance the resilience of the financial system by increasing its outreach and penetration. In order to accomplish this challenging task, the SECP constituted an Insurance Industry Reform Committee comprising of industry experts, professionals and members from within the SECP. The committee, with its zeal and commitment, is working to come up with specific recommendations for the growth and development of the insurance industry in line with its objectives.

(v) Guidebooks on Incorporation and Registration

Owing to repeated interest from stakeholders regarding the frequently asked questions on the incorporation and licensing of insurers, insurance brokers and surveyors, the SECP published and distributed a comprehensive guidebook to various stakeholders, encompassing corporatization and registration of such entities. The guidebook is also available on the SECP's website.

(vi) Policy Advocacy

The SECP feels that the development and expansion of the insurance industry is a task which no one can do alone, hence every stakeholder is seen as a partner in growth. From the multilateral donor agencies to the international reinsurers, multinational brokers and relevant local government/quasi-government authorities to the local insurance industry, the SECP keeps a regular dialogue with the stakeholders on emerging issues related to industry advancement. A series of meetings were held throughout the year, which helped in policy advocacy and capacity building on bilateral issues.

Regulatory Framework

(i) Insurance Companies (Sound and Prudent) Management Regulations, 2012

The fit and proper guidelines are practiced and implemented by regulators globally so as to promote good corporate governance and to encourage the board and the management team to play an effective role for the capacity building of their respective institution. In order to safeguard the interests of stakeholders, including the policyholders and shareholders, the SECP, after the approval of SECP Policy Board notified the Insurance Companies (Sound and Prudent Management) Regulations, 2012, which are applicable to the chief executive officers/principal officer, directors and the relevant key officers of insurance companies. The regulations have been prepared after thorough consultation with stakeholders and insurance industry experts and are in line with the international best practices prescribed by the International Association of Insurance Supervisors (IAIS).

(ii) Introduction of new Solvency Regime

In January 2012, the SECP Policy Board gave its nod for notifying revisions to the solvency regime thereby modifying the SEC (Insurance) Rules, 2002 vide Gazette Notification SRO16(I)/2012 dated 9 January 2012. The salient features of the amendments are:

- Rationalization of admissibility limits for certain assets
- Enhancement of Minimum Solvency Requirement for non-life insurers and shareholders' fund for life insurers; and
- Enhancement of statutory fund requirement by introducing risk-based margin above the current policy holders' liabilities

The new regime has been envisaged to progressively enhance the financial stability of insurers and reduce the risk of volatility in the prices of certain assets, such as equities and properties, which threaten their solvency. Barring a few limits which are allowed to be implemented in a phased manner, the rules came into force with immediate effect.

(iii) Formation of Approved Panel of Auditors

The SECP in order to perform, its supervisory responsibilities to a greater extent relies on the financial reports produced by statutory auditors ensuring that it portrays a true and fair representation of the affairs of the insurer, which eventually enhances the confidence of policyholders in the insurance industry as a whole. The duties and obligations of the external auditors, inter alia are to promptly assess the solvency of the insurers which will assist in averting any financial collapse that may affect the rights of the policyholders. In line with global practice followed by insurance regulators and also in exercise of powers conferred under S.48(1) of the Insurance Ordinance, 2000, the SECP approved a panel of auditors who are eligible to perform the audit of insurers. Such panel is ever-evolving and is under the periodic review by the SECP.

(iv) Takaful Rules, 2012

In 2007, a committee was tasked with reviewing the Takaful Rules, 2005. The committee focused on areas such as ensuring consistency with accounting provisions of the SEC (Insurance) Rules, 2002, prescribing of percentages in respect of various modes of the Shariah-complaint investments for the purpose of determining solvency, maintaining separate solvency for each Participants' Takaful Fund which will ultimately strengthen the solvency of the Waqf Pool, introduction of a comprehensive Shariah Governance Framework. In other words, the takaful operator will ensure that their operations are managed in a sound and prudent manner. In this regard, the SECP is also in the process of establishing a Shariah Advisory Board. One of the prominent features of the Takaful Rules, 2012, is that in line with a policy decision of the GoP, the rules contain requirements for allowing conventional insurance companies to commence takaful business through specialized "window" operations. In other words, proposed rules shall allow conventional insurance companies to apply for permission to commence window operations enabling them to offer Shariah-compliant products and conventional insurance products simultaneously provided that the accounts are segregated and reported separately. The rules were subsequently approved by the Policy Board.

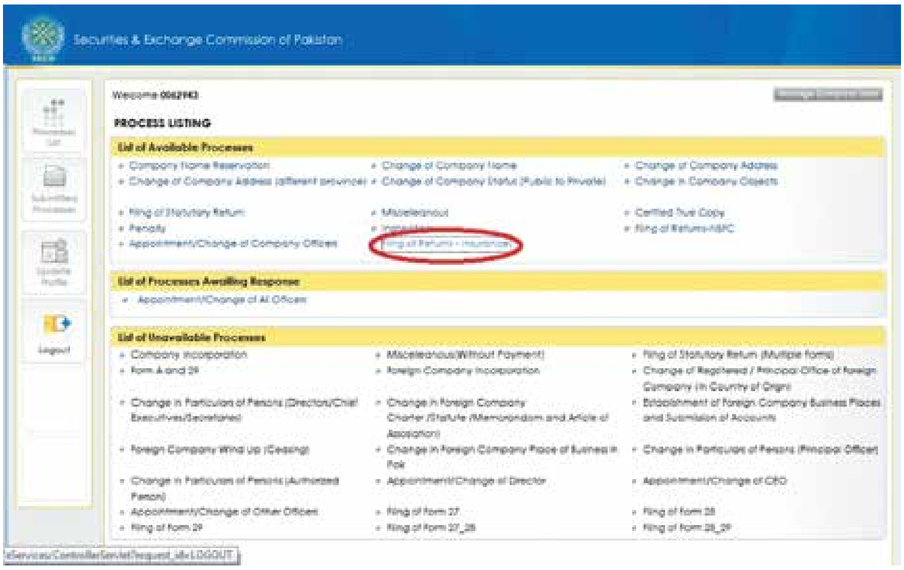
(v) Directions for Insurance Companies to Combat Money Laundering

While taking appropriate steps to address the gaps related to the threat of money laundering in the insurance industry, the SECP has issued a Directive for the Insurers on the Anti-money Laundering (AML) regime including the Customer Due Diligence/Know Your Customer (CDD/KYC) Policies and Designation of Compliance Officers. Such regulatory directions are prescribed and implemented by regulators globally in the financial sector so as to promote the anti-money laundering practices, which help to protect the interest of all stakeholders. The directive is applicable to all public and private sector insurers.

Monitoring and Supervision

(i) Online Insurance Companies Return Submission System (ICRS)

In order to facilitate the insurance industry for submitting the regulatory returns required under the applicable insurance laws, the SECP has introduced an online Insurance Companies Return Submission (ICRS) system, in July 2012 for both life and non-life insurers. The SECP also organized the orientation workshops to educate the insurers about the new system in Karachi and Islamabad, covering all south and north region insurers.



Online Insurance Companies return submission system

(ii) Offsite Examination/ Onsite Inspection of Insurers

The Insurance Division conducted offsite examination of all life and non-life insurers, including family and general takaful operators, during the course of which various non-compliances of such regulatees were referred to the Enforcement Wing for appropriate actions. In parallel, two onsite inspections of insurers were also carried out during the year culminating in referral for required enforcement actions.

(iii) Issuance of NOC's under Insurance Companies (Sound and Prudent Management) Regulations, 2012

Since the promulgation of new Regulations, the division has been issuing no-objection certificates (NOCs) under the Insurance Companies (Sound & Prudent Management) Regulations, 2012, to implement fit and proper criteria for the directors and CEOs of the insurers. The regulations require prior approval of the SECP for the newly appointed directors and CEOs of every insurer. The wing issued 15 NOCs after carrying out an independent and objective evaluation of the suitability of such individuals to perform their duties.

(iv) Life Insurance and Family Takaful Product Approval

The S.6(8) of the Insurance Ordinance, 2000, requires every life insurer, including the family Takaful operator to file new products or plan, before offering to customers, to the SECP to examine the product in order to ensure consumers' protection as well as viability for the insurers. This requires the SECP to examine such policy terms and conditions, benefit to customers, market material, policy illustration, risk rates and actuarial certificates, etc. The wing issued 52 product approvals in respect of new products or revisions to existing products.

(v) Issuance of NOCs for Release of Statutory Deposit

Section 29 of the Insurance Ordinance, 2000, requires every insurer to maintain statutory deposit with the State Bank of Pakistan amounting to at least 10% of their paid-up capital. The insurers submit their requests to withdraw matured securities or replace with some other securities to manage their liquidity position. The wing processed 215 NOCs for the release of such deposits during the period under review.

Enforcement

(i) Enforcement Actions

A snapshot of enforcement actions taken by the Insurance Division against its regulated entities during the period under review is as follows:

Enforcement Action Category	Numbers
Approvals	69
Examination Letters	55
Call for Information Letters	45
Supply of Information / Documents	22
Call for Explanation	77
Inspections' Follow-ups	12
Warning Letters	19
Notices	5
Show Cause Notices	13
Hearing Notices	18
Orders	14
Miscellaneous Letters	79
Total	**459**

(ii) Surveyors' Licensing and Registration

A snapshot of the registration and licensing of authorized surveying officers and insurance surveyors, for the period under review is given below:

Description	Numbers
Registrations of Authorized Surveying Officers	241
Licenses to Insurance Surveyors	117

(iii) Litigation and Advisory

During the period under review, there were 36 cases pertinent to the Insurance Division, pending in adjudication before the High Courts and Supreme Court, against various rules, circulars, notifications, letters and orders of the SECP. The wing maintains frequent follow-ups with the concerned counsels in each of such cases. In this regard, a custom-built software application has also been introduced to generate frequent follow-up emails to the internal officers as well as external counsels. The officials of the Wing also paid frequent visits to the courts to seek any information updates.

(iv) Collection and Reconciliation of the Annual Supervision Fee

The wing made a recovery of Rs178.5 million approximately on account of the annual supervision fee for the period under review. The process involves issuance of a circular for reminding the insurers about their obligation to pay the said fee on or before January 15. Subsequently, reconciliation exercise was made and shortfalls or reconciliation issues were communicated to the respective insurers for any differentials thereon. The summary of sector-wise recovery made in respect of the annual supervision fee for the period under review is as follows:

Sector	Life Insurers (Rs in million)	Non-Life Insurers (Rs in million)	Total (Rs in million)
Private Sector			
• Conventional Insurers	33.4	77.7	111.2
• Takaful Operators	2.5	1.9	4.4
Public sector	50.0	12.9	62.9
Total	**85.9**	**92.5**	**178.5**

(v) Cost of the Federal Insurance Ombudsman's Secretariat

The wing also played an active role in evaluating the proposed budget for the Federal Insurance Ombudsman's secretariat and finally determined the formula for sharing of the same. During the preceding financial year, the formula determined by the SECP for sharing of the cost of the Federal Insurance Ombudsman's secretariat by the insurers was:

> *"greatest of PKR250,000 and PKR0.10 per mille of 2010's - gross direct premium written or contribution received in Pakistan in case of insurance company or takaful operator, respectively"*

However, for the year starting from July 1, 2012 to June 30, 2013, the SECP determined the following formula for sharing of the cost of the Federal Insurance Ombudsman's secretariat by the insurers, with an expected recovery of Rs25.33 million, such as:

> *"greatest of PKR300,000 and PKR0.115 per mille of 2011's - gross direct premium written or contribution received in Pakistan in case of insurance company or takaful operator, respectively"*

(vi) Reconciliation and Recovery of the Federal Insurance Fee

The Federal Insurance Fee paid by the insurance industry, 48 active insurers in the national exchequer has been verified and reconciled for the calendar year 2011.

Future Plans

Policy Development, Reinsurance and Brokers Wing

(i) Microinsurance Development

Apart from the development of regulatory framework for microinsurance, the SECP is actively working with stakeholders to develop innovative solutions for the delivery of microinsurance. Certain technology-driven models have been prepared for local indigenous solutions and it is expected that with the support from international and multilateral agencies, modern intermediary models shall soon be introduced for the provision of microinsurance to the remote and rural populations. Regular interactions are underway with stakeholders including multilateral donor agencies such as the World Bank, Asian Development Bank (ADB) and local stakeholders like Pakistan Poverty Alleviation Fund (PPAF), Benazir Income Support Programme (BISP), Pakistan Microfinance Network (PMN), etc.

(ii) Development of Crop and Livestock Insurance

While the crop insurance has recently taken off in Pakistan, the SECP is working to develop comprehensive guidelines for the industry enabling it to develop this product and cater to the huge demand in the market. Certain pilot projects have been designed by the stakeholders and planned to be executed during the current year, for which the SECP has been providing supervisory advises. These projects are expected to provide effective learning outcomes for developing guidelines for the market to pursue this product actively.

(iii) Development of Health Insurance

Out of country's total population of nearly 180 million, reportedly only 1 million people are covered under the commercial health insurers. Due to lesser focus and development in the area of retail health insurance products and distribution mechanisms, the larger portion of such potential market remained ignored with no access to health insurance. Some of the reasons for low health insurance penetration include lesser investment allocation by the health insurance industry towards development of qualified professionals, processes and technology that would otherwise lead to industry's growth and profitability. The Insurance Division has been encouraging the insurers to do a pilot project on health insurance in partnership with contemporary distribution channels, with emphasis on the need of creating innovative business models and leveraging the use of technology. Stakeholders dialogue has been initiated and guidelines for health insurance are also being developed in consultation with the industry.

(iv) Development of Catastrophe Insurance Schemes

The economic shocks due to the recent catastrophes faced by the country, including floods, where in the absence of proper insurance coverage, the losses suffered by the masses had adverse effect on the overall economy, have necessitated the development of catastrophe insurance schemes, quiet popular around the world. The SECP is working to help the stakeholders for developing such schemes and participated in various forums organized by the stakeholders including the National Disaster Management Authority (NDMA), Pakistan Poverty Alleviation Fund (PPAF), Lead Pakistan and Climate Development Knowledge Network (CDKN), etc. A national level scheme is being developed for which the SECP is committed to providing full support.

(v) Repository for Life Insurance Policies

An insurance repository is an entity independent of life insurers, maintaining data relating to insurance policies in electronic format, including the history of transactions during the term of each policy contract. The objective of creating an insurance repository is to provide facility for keeping details of policyholders and the insurance policies held by them in electronic form, thus making the information easily accessible to relevant parties and to facilitate changes, modifications and revisions in the insurance policy or in data relating to the policyholders, with speed and accuracy. Benefits include:

- Single-demat account for holding details of all insurance policies related to a policyholder
- One time customer due diligence process for policyholders, beneficial to both policyholders and insurers
- Technological boost for the entire insurance industry, facilitating the entire policy lifecycle from policy issuance to claim settlement
- Solution to problem relating to holding of policy documents on long term basis by policyholders
- Single window for changes to all demographic information relating to policyholders
- Consolidated insurance statement, which can be issued to policyholders on a periodic basis

- Single view of all policy details and availability of policy details to the authorized representative of a policyholder, so as to facilitate the claims process
- Updated information on all policies, available online to policy holders to help them in managing insurance portfolio

The industry, particularly the life insurance industry, has been proposing to the SECP to consider supporting the establishment of such life insurance repository for which the division is working with relevant stakeholders to materialize the concept.

(vi) Shariah Advisory Board

Under the provisions of the SECP Act 1997, the SECP is considering forming the Shariah Advisory Board. The members of the Board shall comprise of, other regulatory purveyors, renowned Islamic scholars, with expertise in accounting, law and the insurance industry. The primary goal of the board will be to ensure compliance of regulated entities with the Islamic covenants such as portfolio purification, selection of investment and product design, monitoring and management of strategies and ensuring compliance with Islamic guidelines.

Legislation

(i) Accounting Regulations and Formats for Published Financial Statements and Regulatory Returns for Conventional Life and Non-Life Insurers

With the mandate from the SECP, the insurance subcommittee of the Institute of Chartered Accountants of Pakistan (ICAP) comprising of senior audit partners, actuaries, representatives from the SECP, Insurance Association of Pakistan (IAP) and professionals from the industry have devised accounting formats for life and non-life insurers in consonance with international best practices. The new formats are in the advanced stage of finalization, which once prescribed shall remove the current gaps and discrepancies paving the way for bringing in more transparency and enhanced disclosures by the insurers. This will also form the consistency with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS).

(ii) Accounting Regulations and Formats for Published Financial Statements and Regulatory Returns for General and Family Takaful Entities

The SECP and ICAP are also in the process of scrutinizing the Islamic Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI), which shall be tailored in accordance with local requirements and eventually converge with the IFRS.

(iii) Review and Development of Insurance and Reinsurance Broking Regulations

The rules for insurance brokers were for the first time introduced in Pakistan in 2002 under various provisions of the Insurance Ordinance, 2000. The existing rules for insurance brokers were notified in two sets of rules, i.e., the Insurance Rules, 2002, and the SEC (Insurance) Rules, 2002. While the current regulatory regime for insurance brokers has remained modest and limited to direct insurance broking business only, the SECP is embarking on a review of the framework in light of evolving market practices and global regulatory developments while also taking the reinsurance broking business into its regulatory ambit. The review will primarily take into account the revised paid-up capital requirements, fit and proper criteria and requirements for reinsurance brokers licensing. The SECP, as always, intends to work closely with the industry on the review, and will ensure the participation of the industry through working groups, quantitative impact studies and consultation feedback. In this context, consultation paper has been drafted and will soon be circulated for the comments of stakeholders.

(iv) Unit-Linked Regulations

Though the existing regulatory framework contains adequate regulations in many areas of life insurance products and their pricing, in pursuance of its primary objectives, the SECP is considering additional norms, which shall pertain to enhanced disclosures relating to the management of funds by the life insurance companies. Considering that a significant segment of policyholders relies on unit-linked life insurance policies for securing a safer retirement, the regulations shall guide the investors on the risks of market trends and movement, while ensuring that their money is being invested prudently.

(v) Regulations for Third Party Administrators (TPA) for Health Insurance

In order to increase penetration and outreach of health insurance in the country and to develop an enabling environment for innovative health insurance products, the SECP is encouraging the third party administrator

(TPA) structures and the development of a regulatory framework for such TPAs. Such framework is aimed at the organized development of TPAs in Pakistan and also bringing the existing TPAs within the regulatory ambit of the SECP.

(vi) Alternative Distribution Channels

One of the key levers for growth is distribution. Distribution plays a vital role in insurance operations. The insurance companies use a variety of distribution channels to reach their customers, i.e., agents, brokers, direct accounts, internet sales, bancassurance, telecommunications network, third party administrators, etc. In order to contribute to the capital markets development, the insurance companies will need to revisit their business models. The SECP is currently examining emerging distribution channels that could accelerate the growth of the industry.

(vii) Rules for Insurance Surveyors

The insurance surveyors contribute considerably to the non-life sector. General insurance companies have strong reliance on surveyors and loss adjusters who are required to assess damage suffered by an insured and report their findings as to whether the loss/damage are indemnifiable under the policy terms and conditions. Furthermore, surveyors undertake pre-insurance surveys to advise the insurer and the insured on measures that could mitigate losses, adoption of loss prevention controls, health safety and security standards. To encourage organized development of insurance surveyors in Pakistan, the SECP is working on the draft rules in consultation with the stakeholders. A committee has been constituted, which is revisiting the amendments previously notified. By and large these amendments relate to the licensing of insurance surveyors. It is envisaged that the proposed amendments shall raise the bar in respect of professional standards for the surveyors. The draft rules are in an advance stage of development and will be notified soon for the public comments.

Monitoring and Supervision

(i) Steps Towards Risk-Based Supervision

Following the recent assessment of the insurance regulatory framework and supervisory capacity of the Insurance Division, benchmarked with the insurance core principles (ICPs) of the International Association of Insurance Supervisors (IAIS), carried out by consulting experts under a project sponsored by the FIRST Initiative and managed by the World Bank, the Supervision Wing is planning to move towards risk-based supervisory regime in areas such as:

- more proactive approach to be adopted during offsite examination of insurers, focusing on financial health and risk indicators, in addition to the determination of regulatory compliance
- quantitative tools to be developed for the analysis of the financial condition report (FCR) of life insurers
- quantitative tools to be developed for the monitoring of the risks-based solvency margin introduced by the SECP since January 2012; and
- training of the officers on risk-based regulatory regime

(ii) ICRS to Cater Takaful Operators' Submission of Regulatory Returns

It is planned to extend the services of ICRS system to the takaful operators enabling them to submit their regulatory returns to the SECP electronically, which will bring efficiency to the process of compiling information and taking appropriate regulatory action in a timely manner.

(iii) Quarterly Offsite Examination

With the implementation of the ICRS, the wing is shifting its insurer's offsite examination from annual to quarterly basis. This will bring more timeliness to the regulatory actions and enhance the implementation of regulatory framework.

(iv) Issuance of NOC's under Insurance Companies (Sound and Prudent Management) Regulations, 2012

The wing is working to further streamline the practical implementation of the Insurance Companies (Sound and Prudent Management) Regulations, 2012. Apart from electronic compilation of information, the turnaround time for the issuance of NOC's, under these regulations has been set, to a maximum of three days after getting the complete information from the insurers.

(v) Life Insurance/ Family Takaful Product Approval

The wing is working to introduce processes and structures to make the product submission and approval process for life insurers more structured so as to bring further efficiency and introducing benchmarks for product features.

(vi) Issuance of NOCs for the Release of Statutory Deposit

The wing is working to improvise the system of processing of NOCs under Section 29 of the Insurance Ordinance, 2000, so that information is compiled electronically and the requests are processed within a maximum duration of three working days, thus facilitating the insurers in managing their liquidity position.

Enforcement

(i) Enforcement Actions

The wing has recently been restructured. Two officers have been appointed to assessing the appropriateness and admissibility of the recommendations made by the offsite and onsite inspection and any other wings of the division, and initiate the enforcement actions, accordingly. In order to strengthen this function, the wing intends to allocate more officers to it. Additionally, the wing is in the active process of adopting the policies, the Adjudication Manual, of the SECP. It further intends to obtain all those powers from the SECP, which have not yet been delegated to it so far, so as to speed up the process of initiation of appropriate enforcement actions.

(ii) Surveyors' Licensing and Registration

The wing is planning to go live with the web-based online application for the purpose of licensing and registration of the insurance surveyors and authorized surveying officers, which is expected to eliminate the manual handling of records and approval process.

(iii) Litigation and Advisory

The litigation function will continue rigorous follow-ups on the cases in the matters against or by the SECP that are pending in the courts for adjudication. In this regard, a dedicated officer has already been assigned the responsibility, who is maintaining an up-to-date status of all these cases and track their progress on an ongoing basis by visiting the lawyers and attending the legal hearings.

Flamingo inspecting its surroundings

In order to ensure that the quasi-judicial powers are judicially exercised, the law has envisaged an Appellate Bench comprising of Commissioners, which provides a forum to the regulatees to get their grievances addressed.

Being a regulator, the SECP has to have the highest standards of transparency. Internal Audit is the most effective way of ensuring transparency and the SECP practices high standards of auditing.

Appellate Bench Registry

Internal Audit Department

Annual Targets & Achievements of Appellate Bench Registry 2011-2012

Targets

- Ensuring hearings and disposal of 200 cases

Achievements

- The number of hearings held by the Appellate Benches: 300
- The number of appeals disposed of by the Appellate benches: 69

Highlights

- The highest number of hearings held by Appellate Benches in a year
- The highest number of appeals disposed of by Appellate Benches in a year

Targets

- Developing database in collaboration with IS &T Department on pending and disposed of appeals

Achievements

- The first module of database is in operation

Appellate Bench Registry

The Appellate Bench of the SECP is legally mandated to hear appeals filed against the orders passed either by a Commissioner or any other officer authorized by the SECP. The Appellate Bench comprises of two Commissioners. The Appellate Bench Registry of the Commission is headed by the Registrar Appellate Bench, who works under general superintendence of the Appellate Bench. Administratively, the Registrar reports to the Commissioner, Company Law Division. During the year 2011-2012, the Appellate Bench disposed of 69 appeals with a single bench available for hearing in first half of the year and two benches available in the second half of the year.

Future Plans

In order to dispose of pending appeals, the Appellate Bench Registry has planned to fix appeals on a weekly basis. In order to facilitate the regulated entities, the Appellate Bench shall hold its sittings at the SECP's regional offices in addition to the head office. With the appointment of more Commissioners and availability of three Appellate Benches, the issue of pendency of appeals is being resolved.

Between July 2011 and June 2012, the Appellate Benches have conducted more than 300 hearings. The early hearing of appeals has been a demand of the regulated entities and it is expected that by the end of the financial year 2012-2013, the Appellate Bench shall clear the backlog of pending appeals.

In collaboration with IS&T Department, the Appellate Bench Registry has put in place the first module of the database, which provides information on the status of pending appeals and appeals disposed of by the Appellate Bench. The work on the second module of the database is in progress and it shall be completed by the end of this year.

Annual Targets & Achievements of Internal Audit and Compliance Department

Targets
- Financial, operational and performance audits Operational Audits of 8 CROs
- Auditing of SECP's operating expenses
- Operational audit of HR and Training Department

Achievements
- Achieved
- Achieved
- Achieved

Highlights
- In addition to annual audit plan, 111 pre-audit cases, 2 investigations and Audit Committee engagements were also carried out.

Targets
- Operational audit of controls over IT equipment
- Auditing of Scanning and Archiving Project

Achievements
- Achieved
- Achieved

Internal Audit Department

The Functions of The Internal Audit Department are to:

- Conduct independent and objective audits, evaluations, investigation, and other reviews of SECP programmes and operations;
- Prevent and detect fraud, waste, abuse, and mismanagement in the SECP programmes and operations;
- Identify vulnerabilities in the SECP systems and operations and to recommend constructive solutions; and
- Offer expert assistance and advice whenever required to improve the SECP programmes and operations.

Major Activities During the Year 2011-12

During the year under review, the department performed its activities in line with the approved Annual Audit Plan for the year 2011-12 and managed to accomplish all its targets within the given deadlines/timeframes which included the following:

- Audit of the SECP operating expenses
- Operational audit of controls over IT equipment
- Audit of scanning and archiving project
- Operational audit of human resource and training department
- Operational and financial audit of eight CROs of the SECP

Finalized audit reports with recommendations on the deficient areas were presented before the Audit Committee for its consideration. A regular follow-up in respect of previously issued audit reports and memorandums was maintained by the IAD and Audit Committee was updated about the compliance status of the observations highlighted in the said reports. Further, certain investigative and consultative engagements were also carried out as were referred by the competent authority.

In addition, the SECP reconstituted the Audit Committee in order to ensure that independent assurance and advice in the areas of risk, control and compliance may be provided by the committee members. The Audit Committee Charter defining the scope, authority and manner in which the Audit Committee will function and discharge its responsibilities conferred by the SECP was prepared and placed before the committee for approval. Two Audit Committee meetings were held during the year and the IAD provided secretarial support to the committee in scheduling and conducting the meetings. Minutes were prepared and decisions of the committee were conveyed to the respective departments/divisions to ensure compliance.

As per the practice, the IAD during the year 2011-12 also pre-audited 111 vouchers of final settlements covering pensions, provident fund, gratuity and leave encashment as were submitted to it by the Finance Department. Pre-audit of bonus distribution and fee refund claims of the companies were also conducted. The observations, as emanating from the scrutiny, were communicated to the respective departments for taking appropriate corrective actions.

Future Plans

The activities planned by the IAD for the current year 2012-13 are governed under an Annual Audit Plan, which has been approved by the Audit Committee. Fourteen audit areas have been selected from the total audit universe under the laid down risk assessment criteria. One of the distinctive features of the next year plan is the inclusion of internal audits of operational departments of the SECP so as to broaden the scope of audits and reviews. The policies, procedures and practices will be reviewed while audit programmes and flow charts will also be prepared/upgraded as part of regular audit assignments. The upgrade of the Internal Audit Charter and Internal Audit Manual will also be a point of consideration for the IAD and the Audit Committee in the coming year.

A Double-collared Sunbird keeps a perfect balance

The Strategy, Development, Legislation and External Relations Division is mandated to develop strategic roadmaps for the sectors under SECP's ambit. It implements SECP's investor education programme, liaises and coordinates with all entities external to the SECP both at national and international level.

Strategy, Development, Legislation and External Relations Division

Annual Targets & Achievements
Strategy, Development, Legislation and External Relations Division

Targets
- Finalizing and implementing the revised Code of Corporate Governance
- Formulating a 3-year Investor Education and Awareness Programme and start implementation
- Reforming the CGT Regime

Achievements
- Revised Code of Corporate Governance,2012 finalized and launched on April 10, 2012
- Nationwide Capital Markets Investor Education Programme was launched in July 2012
- Reformed through the Finance Act

Highlights
- Elected to IOSCO Board
- MoU with FBR
- MoU with Turkey, Oman, Morocco and Jordan

Targets
- Restructuring of SECP's organizational structure
- Completing IOSCO WG3 and WG5 mandates
- Supporting the ICM in becoming financially stable and restructuring the institute
- Implementing recommendations of APG and MER

Achievements
- Support functions' restructuring completed
- Both reports published by the IOSCO
- Restructured Board and Management as well as provided extra equity
- Recommendations of FATF have been implemented

Strategy, Development, Legislation and External Relations Division

The Strategy, Development, Legislation and External Relations Division has two departments:

1. **Strategy, Development and External Relations Department (SDERD)**
2. **Legislation and General Counsel Department (LGCD)**

1. Strategy, Development and External Relations Department

SDERD is mandated to develop strategic roadmaps for the sectors under SECP's ambit, implement SECP's investor education programme, liaise and coordinate with all entities external to the SECP both at national and international level, including regulatory standard setting bodies for assessment of the SECP's implementation of international regulatory standards, and multilateral agencies, counterpart regulators, and the federal government, etc.

Key Achievements

Coordination with International Standard Setting Bodies

The SECP is a member of international regulatory standard setting bodies for securities, insurance and pension sector, i.e., the International Organization of Securities Commissions (IOSCO), International Association of Insurance Supervisors (IAIS) and International Organization of Pension Supervisors (IOPS), respectively and is actively involved in their activities through its participation to various working groups, committees etc. at these forums.

IOSCO

(i) Elected as IOSCO Board Member

The IOSCO undertook an organizational restructuring process during the year whereby an IOSCO Board was elected from among the IOSCO global membership to oversee and approve all operational, administrative and policy decisions of IOSCO. The SECP successfully contested elections to the IOSCO Board from the Asia Pacific Region at the IOSCO Annual Conference in Beijing. The inaugural IOSCO Board will hold its position for a period of 2 years till 2014 and consists of 32 jurisdictions that are responsible for taking all decisions and undertaking all actions necessary or convenient to achieve the objectives of the organization. Apart from the SECP, the Board contains securities regulators from the United States, United Kingdom, Australia, India, China and Japan.

(ii) IOSCO WG3 Mandate on "Regulation of Nominee Accounts in Emerging Markets"

The SECP, being co-chair of the IOSCO Emerging Markets Committee (EMC) Working Group (WG) 3 for the regulation of Market Intermediaries', developed exhaustive guiding recommendations on "Regulation of Nominee Accounts in Emerging Markets" which has been approved by the EMC on October 19, 2011 at the EMC Annual Conference in the Dominican Republic and thereafter published as an IOSCO report.

Guidance report was based on a survey of 20 EMC member jurisdictions that was undertaken to obtain feedback on prevailing regulatory structures on securities holding systems that was analyzed to frame recommendations for addressing the regulatory issues pertaining to nominee accounts and the securities holding system in place. The report broadly examines the securities holding system adopted in jurisdictions, client identification measures and approaches adopted by the regulators to address issues resulting with the use of nominee accounts. The report suggested recommendations to effectively address the problems faced through the use of nominee accounts.

The SECP has been a member of the IOSCO since 1998 and has been chairing the IOSCO EMC's WG3, since October 2003. Since becoming the chair of IOSCO's EMC WG3, SECP has worked on the following mandates:

- Cross-border Activities of Market Intermediaries in Emerging Markets – March 2005
- Guidance to Emerging Markets Regulators Regarding Capital Adequacy Requirements for Financial Intermediaries- December 2006.
- Guidelines for Minimum Entry Requirements and Continuous Risk Based Supervision for Market Intermediaries - September 2009
- Guidelines for Regulation of Conflicts of Interest Facing Market Intermediaries – October 2010

(iii) IOSCO WG5 Mandate on "Development and Regulation of Institutional Investors in Emerging Markets"

During the year, the SECP became part of the project team assigned to prepare a report on guidelines for developing an institutional investor base and identifying best practices for regulation of institutional investors in emerging markets. The mandate was chaired by the China Securities Regulatory Commission and other project team members included jurisdictions such as Ecuador, Malaysia, Morocco, Nigeria, Panama and South Africa. The report was based on survey responses received from 25 EMC member jurisdictions. The approved and published report provides an overview of institutional investors in the emerging markets along with providing guiding recommendations for EMC jurisdictions that are contemplating regulatory policies to develop an institutional investor base. By comparing survey results and analyzing case studies, the WG5 team identified key factors and best practices, as well as developed a tool-kit of actionable items which could be used by regulators to facilitate the sustainable growth of institutional investors in their markets.

(iv) Membership of IOSCO Committees and Task Forces

As part of its organizational restructuring the IOSCO eliminated the past distinction between developed and emerging markets jurisdictions in its policy and standard setting work. Committees comprising of members from both developed and emerging jurisdictions are set up to work on its three key functions; policy and standard setting, market development and coordination and outreach. The SECP successfully became member of the following IOSCO policy and standard setting committees.

IOSCO Committee 3 on Regulation of Market Intermediaries

Several jurisdictions applied for membership and leadership positions of the IOSCO forthcoming committees. The SECP's applications for IOSCO Committee 3 on market intermediaries both for leadership as vice-chair from 2013 to 2014 and membership were accepted by IOSCO in consideration of its past contribution to the work of IOSCO. The SECP will now form an integral part of IOSCO's new Committee 3 on the regulation of market intermediaries alongside international counterparts from jurisdictions such as the US, UK, Brazil, China, Japan, France, Germany and India to name a few. The Committee Chaired by Hong Kong consists of approximately 30 IOSCO member jurisdictions and began its functions from the IOSCO Annual Conference in May 2012.

The IOSCO Assessment Committee

SECP's application for membership of the IOSCO Assessment Committee was approved. The Assessment Committee, established to drive IOSCO's key strategic goal of being recognized as a standard setter for securities regulation is tasked with the main responsibility of performing individual peer reviews of self-assessments prepared by IOSCO members regarding the implementation of IOSCO Principles in their jurisdictions and will also be undertaking the thematic review of specific IOSCO standard and principles across all jurisdictions. In addition, the Committee will be involved in organizing ongoing training of assessors, and developing a map of progress towards implementation of the standards globally. The Committee is currently being led by the Australia Securities and Investments Commission.

The IOSCO Task force on "Capital Financing of SMEs through the Capital Markets"

SECP also became a member of the task force established to develop a report on sound regulatory practices for capital financing of Small and Medium Enterprises (SMEs). The mandate aims to highlight regulatory and other challenges facing the SMEs in small business capital formation, explore the ways in which securities regulators can help to address those challenges and develop recommendations. Issues regarding private placement regimes, less burdensome listing and disclosure requirements, corporate governance, tax and other types of implementations and applications in member jurisdictions' experiences with respect to SME financing are some of the areas this report aims to address. A questionnaire has been developed and based on its responses and literature review a comprehensive report will be put forward to the IOSCO Board for approval.

IAIS

(v) Assessment of IAIS Insurance Core Principles

During the year, an assessment was undertaken for implantation status of IAIS core principles in Pakistan under FIRST Initiative's project against the October 2011 IAIS Insurance Core Principles (ICPs).

Following is the summary of the assessment:

ICPs Status	Number of ICPs
Observed (O)	2
Largely Observed (LO)	7
Partly Observed (PO)	16
Not Observed (NO)	1
Not Applicable (NA)	0
Total	**26**

Subsequent to the ICP assessment, a number of significant initiatives were taken by the SECP to address the gaps identified in the ICP assessment. These initiatives would strengthen the SECP's observance of the ICPs.

The initiatives include issuing:

- Updated Solvency Rules for insurers, strengthening capital requirements;
- Sound and Prudent Management Regulations applying to insurers and imposing a number of 'fit and proper criteria' on senior individuals involved with the governance and management of insurers; and
- Directive to insurers regarding development of processes for addressing Anti Money Laundering and Counter-Terrorism Financing (AML/CTF) matters.

(vi) Anti-Money Laundering Regime

The SECP is responsible to strengthen Anti-Money Laundering (AML) regime in Pakistan in the areas under its ambit including; NBFC, brokers, insurance companies and the NPO sector. It liaises with the Ministry of Finance, the Financial Monitoring Unit (FMU), and the Asia Pacific Group (APG) to deliberate on international AML requirements and assists in implementing the measures.

The SECP significantly contributed to drafting the Pakistan National Strategy for AML/CFT regime, which ensures effective implementation of the AML action plan agreed upon by all stakeholders. The strategy aims to reform legal framework of AML/CFT, improve reporting, regulatory and disclosure regime, identify AML/CFT risks and improve capacities and skills of stakeholders and requires the SECP to effectively implement the AML/CFT regime.

The SECP made full compliance with the implementation of the recommendations identified within NBFCs, brokers and insurance sector, by Pakistan's Mutual Evaluation (ME) on AML/CFT regime, jointly conducted by the APG and the World Bank in 2009. The specific measures implemented include issuance of guidelines/circulars on Client Due Diligence (CDD)/Know Your Customer (KYC) for both brokerage firms and insurance sector, changes in the inspection manual and conducting regular inspections with regards to AML. Under the new guidelines brokers and insurance companies are required to take reasonable measures for establishing the source of wealth and source of funds for high risk customers and also to obtain sufficient information to determine the expected source of funding for the account. Guidelines further reinforced STR reporting requirements for Compliance and the same has been made part of SECP's inspection manual and exchanges' system audit regulations (for brokerage firms).

The SECP being a member of AML Law Review subcommittee, contributed to the process of amendments/revision of the AML Act. In light of the recommendations of the APG and Regional Review Group (RRG), SECP proposed to include insider trading as a criminal offence in the draft Securities Act that on promulgation will replace the Securities and Exchange Ordinance, 1969 (SEO 1969).

Coordination with Multilateral and Bilateral Agencies

The SECP regularly coordinates with various multilateral and bilateral agencies both on international and national level for execution of its projects and establishment of linkages for cooperation and technical assistance.

(i) Cooperation with the World Bank

During the year detailed deliberations were held with the World Bank to explore the possibilities of funding new development projects between the two organizations. The SECP agreed to move the following detailed proposals for the World Bank's approval:

- Capacity Building of the SECP under Institutional Development Fund (IDF) Grant Funds of the World Bank
- Funding Proposal for the SECP under the South-South Experience Exchange Trust Fund of the World Bank
- FSAP Mission for diagnostic review of the NBFI sector
- Development of new regulatory regime for insurance sector under FIRST Initiative
- Development of Crop Insurance Scheme and catastrophe risk insurance under World Bank's "Global Facility for Disaster Reduction and Recovery (GFDRR)".
- Establishment of a "One-Stop-Shop" to ease formation of companies and in doing business in Pakistan

The SECP forwarded the proposals for IDF grant, funding under South-South Experience Exchange Trust Fund and FSAP mission to the Ministry of Finance for approval and onward submission to the World Bank. Further negotiations will be undertaken with the World Bank after their formal acceptance by the GoP.

(ii) International Bilateral Cooperation

The SECP has been promoting co-operation with counterpart regulatory bodies of the capital market at the international level and has established co-operative arrangements through Memorandums of Understanding (MoUs) with counterpart regulatory authorities of India, Maldives, Australia, Bhutan, Sri Lanka, China and Iran. During the year the SECP signed MoU's for exchange of information and cooperation with the Capital Market Board of Turkey in Istanbul in September 2011, and with Capital Market Authority of Oman, Jordan Securities Commission and CONSEIL DE'ONTOLOGIQUE DES VALEURS MOBILIE'RES of Morocco in May 2012 in Beijing on the sidelines of the 2012 IOSCO annual conference.

(iii) Coordination with FBR for Improvements in Fiscal Regime

The SECP, cognizant of its responsibility to strike a balance, i.e. rationalize taxes to boost growth of the sectors under its purview while at the same time ensuring that these sectors make equitable contribution to the government exchequer for overall development of the country, and working in close conjunction with FBR was able to implement a number of reforms in the taxation regime for capital markets, corporate and NBFC sectors, during the year.

Revamped CGT under the Income Tax Ordinance, 2001

A major initiative undertaken by the SECP was to revamp the capital gains taxation (CGT) regime on securities trading in Pakistan. The CGT on securities trading remained exempt from taxation for 36 years till June 30, 2010 and during this period investors made undocumented gains. After implementation of tax on securities trading and new taxation rules, there were anomalies in the return filling, calculation mechanism etc., resulting in exit of the investors from stock markets and the trading volumes plunged.

In a bid to give confidence to the markets and bring back the investors, the SECP in collaboration with the FBR, NCCPL, CDC and others stakeholders revised the CGT Regime by making amendments in the Income Tax Ordinance 2001 and Income Tax Rules 2002. Revamped CGT regime addressed the following issues:

- Document the income and economy with ease of transaction and
- Minimize interaction with tax authorities.

Under this regime, the National Clearing Company (NCCPL) has been made the withholding agent to compute and collect CGT from all capital market's transactions relieving the individual investor from the hassle of CGT calculation. The system developed at NCCPL is fully automated that would remain under the vigilant audit of FBR on a regular basis to ascertain its effectiveness. The NCCPL shall issue prescribed Annual Certificate to the taxpayer which will be conclusive evidence for taxation purposes and will submit a quarterly statement relating to CGT deducted from all Capital Market investors to FBR.

Under the regime no question relating to source of investment for existing investments will be asked if:

- Statement of Investment, Wealth Statement and Income Tax Returns are filed with the FBR; and
- The amount remains invested for a period of 45 days till June 30, 2012

Further, no question relating to source of investment for future investments till June 30, 2014 will be asked if:

- The amount is kept invested for a period of 120 days till June 30, 2014
- Tax on capital gains is paid; and
- Statement of Investment, Wealth Statement and Income Tax Return is filed with FBR;

The requirement of filing the return of income along with the wealth statement, and to keep the funds invested in stock markets for 120 days, will help document all capital market transactions and safeguard against any mis-use of investment opportunity by any investor. Further to ensure that CGT scheme is in compliance with the FATF Principles SECP issued a notice to all stock market brokers for strict compliance with the AML requirements irrespective of the implementation of CGT regime.

The Secretariat of Financial Action Task Force (FATF) in its Review found Pakistan's CGT Regime not in breach of FATF Principles for such schemes and having no negative impact on implementation of AML preventive measures. FATF Secretariat has assessed the CGT programme to comply with the FATF's four basic principles on Voluntary Tax Compliance (VTC). Pakistan is one of the first few countries to successfully adopt the VTC regime. FATF Secretariat recommended no further action to be taken in relation to Pakistan's capital gain tax programme. Assessment review by FATF Secretariat removed the apprehensions, considering CGT Regime as being in violation of AML law.

Since the news about the SECP's initiative to revive the CGT regime in mid-January 2012, the stock market is showing an upward trend. The lowest KSE-100 index during the current calendar year was 10,909.12 on January

12, 2012, the day just before the announcement of the SECP initiative to revive CGT regime. The highest KSE-100 index was 15,449.61 on September 14, 2012, the day after issuance of amended CGT Rules by the FBR.

The SECP in continuation of its strategy encompassing continued reforms in the capital markets and corporate sector, deepening of structural reforms through removal of anomalies constraining economic activity, and to provide a level playing field to all the stakeholders, recommended various amendments to the Income Tax Ordinance, 2001 and Federal Excise Act 2005, most of which were notified through the Finance Act 2012-13. Significant amendments are as follow:

1. Removal of Tax Arbitrage for the Income and Money Market Mutual Funds: The tax arbitrage available to the Commercial Banks to invest in the Income and Money Market Mutual Funds was resulting in money flow of the banks towards these funds instead of providing credit in the economy. The arbitrage was, therefore, taken back.
2. Group Companies: To promote and consolidate the fragmented corporate structure by forming groups, an incentive is given by exempting the withholding of taxes on the dividends declared and profit on debt amounts given within a group.
3. NCCPL Appointed as Withholding Agent on Margin Financing: NCCPL is appointed as withholding agent on margin financing which will increase the tax revenue in future.
4. Tax Free Transferability of Amounts in Retirement Funds: Exemption from taxation is given to a person to transfer amounts from Provident to Voluntary Pension Scheme and vice versa. Further exemption is provided to persons to withdraw amounts, from amounts of provident fund, from the Voluntary Pension Scheme.
5. Exemption from Withholding Taxes for Exempt Incomes: The Mutual Funds and Pension Funds are now exempted from withholding taxes provision w.r.t. the Capital Gain Tax.
6. Extension in Exemption from Taxation: To promote the Venture Capital Companies and Funds, the existing exemption from total income till 2014 is now extended till 2024.
7. Increasing the Depreciation Limit for Vehicle not Plying for Hire: The limit of cost available for depreciation of vehicles not plying for hire is increased from Rs1.5 million to Rs2.5 million.
8. Tax Credit on Investment in new Shares and for Life Insurance Premiums/Takaful Contributions Paid: To promote investments in IPO's, the amount of eligible investment to avail tax credit on investment in IPO has been increased from existing Rs500,000 to Rs1 million, percentage of the person's taxable income for the year from 15% to 20% and the holding period has been reduced from 36 months to 24 months.
9. Reduction in CGT Rates for Insurance Sector: The CGT rates of insurance sector are reduced to bring them on a par with other sectors.
10. Federal Excise Duty Exemptions: Federal Excise Duty on livestock insurance is exempted.

(i) CFA Institute – SECP Scholarships Programme 2012-13

CFA Institute awarded 20 CFA Exam scholarships to the employees of the SECP in December 2012 and June 2013. The award is part of the ongoing mutual assistance and cooperation between CFA Institute and the SECP. Objective of the award is to assist the SECP in building the capacity of its employees and enable them to perform their role more efficiently.

Investor Education

Cognizant of the need for investor education and awareness in Pakistan, the SECP developed a comprehensive three years Investors' Education programme which is part of its wider goal towards protecting investors more adequately, spreading awareness and literacy across Pakistan for the betterment of not only individuals but the economy as a whole and for building and sustaining an adequate savings culture in the country.

Recognizing the strategic importance of investor education in creating financial literacy for protection of investors' rights and raising their financial capability to make informed investment decisions, the SECP in collaboration with 3 stock exchanges, the Mercantile Exchange, Central Depository Company, National Clearing Company and the Mutual Funds Association of Pakistan has launched a nationwide Investor Education programme under the brand of the Institute of Capital Markets.

(ii) Programme Objectives

- To protect investors by educating them on their rights and responsibilities
- Empowering individuals with knowledge to evaluate different financial products and make informed decisions
- Enable investor's to understand and manage risk
- Reduce investor's vulnerability to fraudulent schemes

- Expand outreach of financial services and products
- Encourage short term and long term savings culture
- Build investor confidence in the non-bank financial markets

(iii) Modes of Education

- Investors' website: A separate SECP investors' website will be developed to be the primary tool for passing on information and knowledge to both potential and existing investors. In addition to basic material such as guides and articles, the website will also contain interactive tools such as calculators, games and quizzes. Information contained in the website will include material which already exists with SECP, such as published investor guides and material which is to be drafted by SECP to meet the purpose of the programme. The website will act as the database for all information created or posted by SECP for the purpose of the Investor Education Programme
- Educational Material in the form of guides, booklets and articles, etc.: The material will be bifurcated in 3 difficulty levels: basic, intermediate and advanced, and will range from topics such as basic investment tips to analysis of financial statements and returns.
- Seminars: Seminars will be conducted for different segments of population strata's, with varied difficulty levels explained below.
- Media (electronic, print and social): Through the media campaign short messages will be aired on TV and FM radio channels, such as short investing tips and highlighting SECP's complaint management system, investor website and social media pages. Media channels will also be approached to air public service messages on investor protection. The SECP will also advertise the location and time of seminars being conducted under the programme in order to attract the appropriate audience to the venue.

(iv) Implementation of the Programme

Segmentation

Under the programme, the SECP has created three different target audiences:

1. University Students: The Programme will target university students, with the aim to develop financial literacy for life-long savings and investing habits at an early age. It will focus on providing an understanding over various financial products and also informing students on the structure and functioning of the capital markets and highlight the role of key market players.
2. General Investors: The segment will target individual investors such as "white collar workers" along with various participants from the corporate sector and business community, with a view to enhance their financial capability through providing education on their rights, responsibilities, risks and rewards, analysis associated with investment in the capital market, insurance and retirement planning.
3. Grey Investors: Various studies show that individuals who are close to the retirement age are significantly less financially educated than younger people. People at or close to the retirement ages have a life time of savings and thus are looking for suitable investments matching their risk profile. The Programme activities catering for this segment of population aims to increase financial capability of grey investors and provide them with various avenues of investment.

Note: For the second year the SECP plans on introducing a fourth segment which will target lower income individuals across Pakistan

Details on Seminars

Seminars will be conducted in all 4 provinces of Pakistan to expand outreach of the programme as far as possible. The three stock exchanges have been allocated various geographical areas for conducting seminars in their respective areas while all other stakeholders will provide assistance throughout all areas. It is planned to hold one seminar every week across every region, resulting in 3 seminars on a weekly basis in total.

Material for the seminars has been drafted in accordance with 3 different difficulty levels (basic, intermediate and advanced). The level of difficulty will depend on the segment of population being targeted as well as the region in which the seminar is being conducted. A large pool of resource persons has been identified from amongst the stakeholders, professional institutions and corporates to act as presenters in the seminars.

For adequate outreach, linkages have been created with various institutions within Pakistan to provide physical, financial, logistical assistance as well as human resource. The programme, in its first stage is planned for 3 years, after which it will be modified on the basis of experience and feedback.

SECP's Reorganization

During the year, SDERD was tasked with studying the internal organizational structure of the SECP to achieve the following objectives; (i) consistency in policies, (ii) increase in efficiency, (iii) pooling of resources, (iv) realizing synergies, (v) decreasing turnaround time, (vi) clarity of roles and responsibilities, (vii) increasing checks and balances, (viii) specialization in terms of functions, (ix) enhancing teamwork, (x) effective span of management, and (xi) eliminating regulatory arbitrage.

The SDERD conducted an in-depth study of the SECP structure, starting from its initial corporate plan to subsequent changes in structure, changes in delegation of power of the Commission to Commissioners, Executive Directors and Directors in various departments, number and nature of decisions taken by the Commission since inception, portfolios of Commissioners and EDs, analysis of process flows of all operating departments carried out jurisdictional research on structures of SEBI, SC Malaysia, SEC Thailand, SEC Hong Kong, ASIC and US SEC.

Based on the analysis, the SDERD is in the process of developing a detailed report on new and effective organization structure of the SECP with respect to its functions. The organization structure report shall be presented to the Commission for its approval in December 2012.

The new structure is expected to have following benefits:

- Functional segregation as practiced in most international securities regulators
- No functional repetition
- Clearly defined roles and responsibilities
- Effective span of management for every supervisor
- Appropriate checks and balances owing to functional distribution of work and significant powers resting with the Commission
- R&D and Supervision functions shall be separated.
- More focused approach towards investor education and complaints.
- Better utilization of human resources and more efficient turnaround time.
- Uniformity in regulatory approach
- Formalized cross functional teams for specific areas

The Commission was cognizant of the fact that the reorganization from its present sector based divisions to functional basis is a huge task and for smooth transition from the present to the new organizational structure, role of resources from HR Department, IS&T Department, Administration Department, Finance and SDERD will be crucial. It was, therefore, decided that reorganization may be conducted in two steps. In the first step, support services departments were reorganized in March 2012, whereas the second step will be reorganization of the remaining divisions/ departments.

The reorganized support services divisions and departments of support functions were as follows:

I. Talent Management, Finance and Communication Division (Then HR&T Department, Finance Department, Media & Publication Wing of SDERD)
II. Organizational Effectiveness Division (Then IS&T Department and Admin Department with some additional functions; Complaints and Services Center, Transformation and Knowledge Management)
III. Investor Education Department (New Department) and
IV. Chairman Secretariat (Chairman's office and Local and bilateral relations)

In light of international best practices and the need felt by operational departments, Audit Oversight Board and Shariah Advisory Board were formed to regulate Audit profession and provide Shariah Advisory services respectively. Administrative matters pertaining to Shariah Advisory Board were assigned to SDERD whereas matters pertaining to the Audit Oversight Board were assigned to the Enforcement Department. The relevant departments are in the process of developing the concept papers to devise the structural and functional details of these boards which will be presented, for approval, to the Commission shortly.

Corporate Governance Regime

The SECP revised the Code of Corporate Governance, 2002, taking into account the concerns of market participants, and international best practices especially those surfacing after the financial crisis and the lessons learnt from practical issues and considerations relevant to listed companies to ensure that the Code reflects changing governance concerns, practices and economic circumstances.

The SECP, in October 2010, launched a thorough consultative process after its review and revisions of the amendments suggested in the code by the Pakistan Institute of Corporate Governance (PICG) Task Force to reform the code. The revised code was placed on the SECP's website for public comments. Three roundtables and a number of bilateral meetings with stakeholders were conducted after having received written comments and suggestions from a wide range of stakeholders.

The revised code of Corporate Governance 2012 was formally launched on April 10, 2012 which became effective through amendment to listing regulations of stock exchanges from April 11, 2012. The revised code, as a step forward, has taken key measures with the objective of enhancing the governance standards in the country.

The Commission has also approved Director Training Programme of Institute of chartered Accountants of Pakistan in August, 2012.

Institute of Capital Markets

In order to improve the quality of professionalism of market participants in the Pakistani capital markets, the SECP along with other market players set up the country's first securities market institute namely; the "Institute of Capital Markets" (ICM). The ICM was incorporated on August 21, 2008 as a distinct legal entity, and is operating as an association not for profit registered under section 42 of the Ordinance as a company limited by shares.

The World Bank, in June 2011, extended a grant to ICM from the World Bank's Institutional Development Fund (IDF) of US$380,000 for a term of three years for development of ICM's capacity to enable it to promote knowledge and introduce professional standards in the financial markets of Pakistan. Keeping in view heavy accumulated losses of ICM and unsatisfactory implementation status of IDF grant the SECP decided to restructure the ICM. The following key measures were taken by the SECP.

i. Restructuring of Board of ICM: It was decided that the total number of directors on the Board of ICM including the Chief Executive Officer (CEO) would be twelve. The SECP nominated three of its senior officers on the Board of ICM and SECP Chairman was made the Chair of the Board. Remaining vacant seats were filled by adopting professionals from the market. Apart from officials from the SECP, the board consists of participants from; capital market institutions, banks, insurance sector, NBFIs, academia and professional accounting bodies.

ii. Management of ICM: As part of the restructuring process a CEO with diverse experience was appointed to head ICM. Further, a Company Secretary and Chief Financial Officer were also appointed to the institute.

iii. Business Plan: A three year business plan of ICM has been prepared.

iv. Right Issue: To overcome the financial distress at ICM, 100% right issue was announced, which was accepted only in major proportion by the SECP and Central Depository Company. The unsubscribed shares were later subscribed by the SECP resulting in 73.5% shareholding of the SECP in ICM.

v. Revision in Memorandum and Articles of Association: The objectives of ICM in the Memorandum of Association (MOA) were amended to:

   a. Include Insurance sector in the scope of ICM for providing certification programme for the sector.
   b. Conduct events/programmes for investor awareness and education
   c. Authorize ICM to provide training services
   d. Conduct courses based on face to face instructions

Further, the articles of association were so amended to create a position of Vice-Chairman of the Board of ICM.

vi. Investor Education Programme: The SECP launched the investor education programme under the brand of ICM.

vii. Appointment of Consultant: A consultant was appointed to ensure that the grant activities start within the mandatory timeframe.

2. Legislation and General Counsel Department (LGCD)

The Legislation and General Counsel Department drafts or reviews legislation to be administered by the SECP and also reviews draft laws, developed by the federal government and statutory bodies. It also examines the laws administered by the SECP and proposes amendments, if necessary. In addition, it reviews bilateral investment treaties between Pakistan and other countries. It is actively involved in the ongoing exercise to revamp the existing laws administered by the Commission.

It also advises the Commission or the operational divisions and departments on a number of wide-ranging and important issues. It provides legal opinions to the divisions/departments of the Commission on interpretation of provisions of the 1997 Securities and Exchange Commission of Pakistan Act, the 1984 Companies Ordinance and any matter referred to it by a Commissioner or the Commission. All external legal opinions are solicited by the department as and when required. It is also responsible for maintaining a panel of lawyers for the Commission. It is working to finalize the draft of the new Company Law by September 2013 for submission to the Parliament.

Future Plans

1. IOSCO

As a member of the IOSCO Board and its various committees, the SECP will continue to be an integral part of IOSCO's policymaking and support IOSCO's progress towards developing a global framework for securities' markets.

2. Taskforce on Financing of SMEs through Capital Markets

The SECP along with the taskforce will be involved in analyzing survey responses and drafting a final report on the mandate for Board approval during the next year.

3. Self-Assessment of IOSCO Principles

IOSCO's 38 Principles of Securities Regulation provide a yardstick to facilitate member jurisdiction's monitoring and compliance and also measures progress of member jurisdictions towards effective regulation. The SECP will undertake its self-assessment against IOSCO's principles and identify hindrances towards adopting global regulatory benchmarks.

4. Investor Education

After the launch of the capital markets investor education programme, the SECP will be involved in appropriate implementation of the deliverables of the programme including holding of seminars, development of material, preparation of a comprehensive investor website and running a media campaign for investor awareness.

5. IAIS MMoU

The SECP will endeavour to become a signatory to the International Association of Insurance Supervisor's (IAIS) Multilateral Memorandum of Understanding (MMoU).

6. Self-Assessment of International Regulatory Standards for Pension

The SECP will initiate assessment of international regulatory standards for Pension.

7. Addressing the Gaps Identified in Implementation of IAIS Core Insurance Principles

The SECP will move forward to take appropriate measures to address the gaps identified in the assessment report. Also during the next year a revised self-assessment will be conducted, once the identified gaps are removed.

8. New Projects with Donor Agencies

- The SECP's proposal for Institutional Development Fund (IDF) grant, funding under South-South Exchange Trust Fund and FSAP mission will be negotiated with the World Bank for approval.
- Proposals for development of new regulatory regime for insurance sector, development of crop insurance scheme and catastrophe risk insurance and establishment of a "One Stop Shop" to ease formation of companies will be submitted and negotiated with the World Bank.

9. Assist ICM in Developing Certification Programmes

The SECP will assist the ICM in developing various certification programmes for different segments of market under the World Bank's IDF grant and will assess whether the certification programmes should be made mandatory for market participants.

10. Fiscal Incentives for SECP Regulated Sectors

The SECP will work closely in collaboration with the FBR and industry participants to provide fiscal incentives through beneficial taxation policies for the SECP regulated sectors.

11. Code of Corporate Governance

The SECP will hold developmental activities for awareness over the Code in collaboration with exchanges and develop a corporate governance scorecard to determine the compliance status of companies in relation to the Code.

Laughing Gulls work together to maximise effectiveness

Leadership is a noble calling. In addition to meeting well-defined strategic objectives, leaders must also help their organizations make meaningful contributions to social issues, economic growth, and political stability. That's why effective organizational leadership plays a vital role in shaping our world. — Robert Joss

Organization Effectiveness Division

Annual Targets & Achievements
Organization Effectiveness Division - TKM, IS&T, Administration and Service Desk

Targets
- eServices-implementation for CLD, SMD and Insurance
- Market Surveillance Suit-Modules
- Setting up Disaster Recovery Center
- Establishing Service Desk
- Appointing travel agents and event managers
- Efficient procurement SOPs

Achievements
- Online filing for Insurance Sector
- Online Licensing/Renewal of Surveyors
- Online Beneficial owners Returns submission
- Real Time Challan Verification
- Automatic work assignments
- MSS : Market Replay

Highlights
- Functional Service Desk
- Hot Disaster Recovery Centre
- Operational Data Guard
- Provisioning of Laptops and Wi-Fi
- Brand Identity
- Floors Renovation
- Gym, Library and ATM Facilities
- Insurance Companies Return System (ICRS)

Targets
- Master Data Management
- Upgrading Database Infrastructure
- Business Process Study
- Upgrading IT infrastructure
- Floor renovation
- Vehicle acquirements
- Enhancing quality of janitorial, gardening and security services

Achievements
- RAC upgrade 11g
- Business processes' documentation and analysis
- Provisioning of network printers
- Upgrade of virtual infrastructure
- Storage enhancement
- Mezzanine and third floor renovation
- Gym and library facilities
- Vehicle acquired
- Revised Medical Policy

Organization Effectiveness Division

The SECP reorganized the departments performing support functions. One of the changes was the formation of the Organization Effectiveness Division (OED). The OED has four departments: two existing ones: the Information Systems and Technology (IS&T) and Administration departments, and two new ones: the Transformation and Knowledge Management Department (T&KM) and the Complaints and Service Centre (C&SC) Department. These changes were made with a view to introducing greater efficiency in the SECP processes and to develop areas of importance in terms of the organization's mandate.

The key achievements of the OED departments for the year 2011-2012 are:

1. IS & T Department

(a) eServices Programme:

eServices is an ongoing programme, which has been running since September 2008. The objective of this programme is to facilitate the corporate sector with a faster, secure and efficient electronic medium of interaction with the SECP.

In order to improve the performance, reliability and stability, as well as to reduce the recurring cost of licensing, continuous changes, enhancements and upgrades are being made to eServices. A number of activities and projects were carried out in the eServices programme to facilitate both the inside and outside stakeholders of the SECP.

Some of these activities included:

- For all those processes in the eServices programme, which involve a payment to the SECP, the process goes into a waiting state until it is validated that the requisite payment has been made. Earlier, it used to take anywhere from, 6–48 hours for this validation. But now the system has been enhanced where the validation takes place between 5–45 minutes, thereby improving the efficiency of the system.
- The process optimization was carried out and majority of the processes in eServices now require fewer steps to complete.
- New processes are continuously being added to the eServices programme. A set of debt market related processes have now been added to eServices. Debt Security Trustee is a registered company, which protects the rights of investors as per the Trust Deed in accordance with the provisions of Trust Act, 1882. Any registered company which may need funds for its projects and expansion can launch debt product, the interested investors may participate in the product as per the provisions of the debt security prospectus which may allow them to do so. The Corporate Debt Market Submission (CDMRS) was designed to gather post-completion of the subscription of debt security trustee's securities, the Debt Security Trustee first reports the features of the issue through the system and afterwards start reporting periodically based on the decided frequency of the issue. In addition, CDMRS enables the SECP officials to generate standard and customized reporting of the debt market.
- Processes related to the insurance sector have also been added to the eServices programme. The insurance companies are required to submit their financial statements and other returns on an annual basis while listed insurance companies submit condensed financial statements on a quarterly and half yearly basis. The statement of assets and liabilities is submitted on a quarterly basis by insurance companies that are not listed. In order to regulate the submission and effectively monitor financial statements and other regulatory returns, it is imperative that insurance companies are encouraged to submit such information through an online submission system. The insurance companies returns system (ICRS) has been developed to facilitate the Insurance Division to carry out its functions ensuring the protection of the interest of insurance policyholders and to promote sound development of the insurance industry. The ICRS can electronically gather Insurance Industry's data and is now equipped with statistical and analytical tools designed to facilitate in screening, analyzing and rating financial condition of insurance companies.
- The processes of the Beneficial Ownership Wing requiring the submission by beneficial owners have also been added in the eServices programme. The filing of annual disclosure of beneficial owners interest and list of members is mandatory for all listed companies. eDBMIS (electronic disclosure of beneficial owner and members' interest system) was designed for the Beneficial Ownership Wing to monitor the trading activities of specified officers and more than ten percent shareholders of all listed companies in order to protect the interest of small shareholders of the listed companies. Such beneficial owners are discouraged to make windfall gain. eDBMS helps to compile beneficial ownership data and to detect the cases where a gain has been made on account of purchase and sale, or sale and a purchase transaction made within the period of six months.

(b) Market Monitoring Surveillance System: eSurveillance

We have indigenously developed eSurveillance to address the market monitoring and surveillance activities of three stock exchanges of Pakistan. The surveillance system analyzes the real time data feeds from the three stock exchanges and generates a number of alerts and reports related to various types of market manipulations. In order to ensure market's fairness, efficiency and liquidity, the SECP officials can measure performance and monitor activities on a real-time basis using eSurveillance system. This year we have added, modified and tailored various modules of this system. The following modules were developed for the market surveillance system to address the regulatory requirements of Security Market Division:

a. MSS : Offsite Reporting
b. MSS : Risk Management
c. MSS : Case Management
d. MSS : Market Replay

(c) Enterprise Resource Planning (ERP) Project

A comprehensive feasibility study, requirement analysis, and business process analysis etc were done during this year. Solution and vender selection activities were finalized. The implementation phase of this project will be completed during next year.

(d) Establishing a Service Desk

A Service Desk has been established to provide a single point of contact for users to receive help and to handle complaints and enquiries related to laws and policies, registration of different types of companies, licensing requirements related to grant and renewal, facilitation and protection of investors, creditors, depositors, policyholders, and consumers, enforcement, monitoring, and compliance, a central service desk facility for internal and external users. It is intended to provide a single point of contact ("SPOC") to meet the communication needs of both users and the SECP. The SECP's service desk seeks to facilitate the integration of business processes into the service management infrastructure. In addition to actively monitoring and answering user questions, it is providing the communications channel with the user community and increasing user satisfaction, reducing costs, and meeting business objectives.

(e) Management Systems and their Surveillance Audit

Third party annual surveillance audit for Quality Management System (QMS) and Information Security Management System (ISMS) were conducted. The auditors expressed their satisfaction with these systems, and have extended the certifications, after finding them in compliance with international standards.

(f) CCIS: Appellate Bench

This system records the proceedings of Appellate Bench. It is closely linked with the CCIS to record any linkages between cases in the Appellate Bench and the cases in the various courts of the country.

(g) In-House Trainings

In-house training sessions have been arranged in order to impart IT-related skills to the SECP's employees. A number of participants from different departments have attended these sessions. The attendees were taught how to use off-the-shelf softwares such as Microsoft Excel, Word and PowerPoint starting from beginner to advanced level.

(h) Provisioning of Wi-Fi Access in SECP Offices

The provision of Wi-Fi access at the SECP offices was a vital requisite to enhance work productivity. The service infrastructure for enabling Wi-Fi provisioning has been put in place at most of the Company Registration Offices (CROs) and at the SECP head office. The users with mobile computing devices have access to corporate network as well as internet, irrespective of their physical location in the office space with the help of highly available backend service infrastructure. This provisioning includes network access for smart phones. The dedicated, secure, and highly available service infrastructure has been provisioned for enabling internet access for smart phone users. The infrastructure is scalable enough to meet the current and future needs. This will enhance user productivity and mobility, access to network and information, and will also be beneficial in reducing infrastructure cost in the long run.

(i) Backup Generator at Lahore CRO

The Disaster Recovery Centre (DRC) has been established at the Lahore Company Registration Office (CRO). A 250 KVA backup diesel generator has been installed to provide backup power in case of failure of the main power supply. The installed generator can keep the DRC and CRO up and running with full load along with cooling infrastructure for several hours, even days (with extended fuel supply) in case of long power outages.

(j) Comprehensive Backup Solution

A comprehensive backup solution has been implemented to ensure proper online and offline backups at the head office. A very large amount of data is backed up and kept onsite and offsite (in a bank locker). Multiple software and hardware solutions were studied and a few were tested for proof of concept at the head office. Finally Symantec Backup Exec with IBM System Storage TS3100 Tape Library was deployed. The IBM TS3100 is designed to offer outstanding performance, capacity, and reliability for a cost effective backup, restore and archive for large storage environments. In addition to Symantec backup solution, VMware Data Recovery (VDR) solution is also deployed to take onsite backups of virtual machines at the head office and CROs.

(k) Provisioning of Mobile Computing Devices up to Deputy Director Level Officers

Owing to the shrinking difference between the price of laptops and desktops, ease of mobility, ease of use, lesser maintenance requirements and less disruption in work, reduced load on environmental requirements, i.e., UPS, physical network connections etc. The SECP decided to extend provisioning of mobile computing devices up to deputy director level officers. The first phase of provisioning of mobile computing devices up to deputy director level officers has been successfully completed this year. This has enhanced work productivity, user trust and ownership. It has facilitated users to accomplish their tasks even outside the office hours without having to stay in the office after working hours. Providing laptops to employees has ensured that they can work from other locations and have immediate access to data. They can share information with colleagues and stakeholders, and send information back to the office at the end of a meeting or conference with clients.

(l) Heavy-Duty Network Printers

Previously most of users had local printers attached directly to their computers which were not only hard to manage, but were also wasting useful resources. These printers were replaced by heavy-duty network printers on each floor at the head office as well as at the CROs. All network printers have been deployed centrally through a print server and are published through Windows Active Directory. This central deployment has provided instant access to printers to users with faster printing speed, duplex printing, and efficient utilization of paper.

(m) WAN Connectivity Enhancement

In order to upgrade the current network infrastructure, there was an essential requirement for the network bandwidth enhancement. The bandwidth enhancement was planned not only for the currently running applications but also keeping in view the user experience and requirements for using the Internet. Network/Internet bandwidths have been enhanced for the head office and branch offices (CROs). The CROs in major cities like Karachi, Lahore and Islamabad have been upgraded from 1 Mbps to 6 Mbps. Network bandwidth in the remaining CROs has also been upgraded, and they have shifted from 256 Kbps to a minimum of 1Mbps. The internet connectivity has been enhanced from 6 Mbps to 14 Mbps at the head office. Besides bandwidth enhancement, connectivity medium has also been replaced from copper to fiber which has improved efficiency and reliability. The backup radio links have also been provisioned for critical links such as the Karachi CRO and the head office.

(n) Unified Communication

Keeping in view the new technologies and advances in the field of voice, video and data, IS & T department has been focused to provide the SECP users a single collaboration suite that covers the entire feature set for quality voice, video and presence providing robust communication infrastructure. In order to meet these needs, a project named Unified Communication (UC) was initiated to integrate real-time communication services like instant messaging, presence information, telephony, video conferencing, data sharing, call control, speech recognition, fax-to-email and email-to-fax services etc.

Many server and client side components were installed that included: Cisco Unified Communication Manager (CUCM) Publisher and Subscriber components, Cisco Unified Presence Server (CUPS), Cisco Unity Connection (CUC), Cisco Meeting Place (CMP), and Cisco Jabber (for mobile and Windows workstations).

Video phones have been allocated up to deputy director level officers and above. Now they can communicate within the entire SECP through video as well as audio. IP phones have been allocated to the remaining officers and staff. Keeping in view the intense requirement of video conferencing of top management specific video conferencing devices like Cisco EX-60 and EX-90 have been installed at their desks. They can manage their video conference requirements from their own desk and can communicate within entire SECP in high definition (HD) video. The UC project has enabled all SECP users to communicate with other users in CROs and/or head office free of cost in high definition audio and video format.

The UC project has provided a single collaboration tool across the board to fulfill all communication needs, and has helped to revolutionize the communication facilities for all SECP users. It has enhanced productivity and collaboration manifold by integrating all communication services under one umbrella.

(o) Core Switch High Availability

Continuous and smooth running and availability of all IT services is always the highest priority of IS & T Department and keeping this perspective in view the core network switches (Cisco 6509) have been configured in redundant mode. The redundant/failover configuration of core switches has resulted in avoiding a single point of failure at core network layer. It will also help in keeping the whole network infrastructure up and running on a 24/7 basis even in case of any hardware component failure.

(p) Virtualization on VMware Phase 2

In early 2008, the Information System and Technology (IS & T) Department found itself running into physical constraints in the data centre. Higher number of physical servers meant higher power consumption, more rack space, more cooling requirements, more complex networking and cabling requirements and a greater carbon footprint over the environment. All of these had a definite impact on cost of operations which had to be reduced to cater for expansion and to provide realistic room for significant growth over the period. The IS & T Department decided to introduce virtualization in data center and started a test run in 2009. The first phase of server consolidation was successfully completed, enhancing productivity of human resource and ensuring higher uptime for infrastructure and reduced costs.

The second phase of virtualization was envisioned to further consolidate data centre. In this phase two more high-end servers were deployed at the head office with higher computing power were installed in a Distributed Resource Scheduler Cluster to automatically load balance the virtual infrastructure and to ensure maximum uptime for production and business critical application hosted on virtual machines. The infrastructure team at IS&T Department was successful in reducing the carbon footprint, the cooling costs for data centre, and physical networking upgrade costs. This consolidation also enabled better management of the Infrastructure, quick provisioning and allocation of computing resource, reducing the turn-around time for many routine processes, and at the same time ensuring a higher uptime.

Benefits:

a. Installed two additional high end servers at the head office, which enhanced computing power
b. Moved Phase 1 servers from the head office to enhance computing power at Disaster Recovery Site
c. Decommissioned more physical servers from the head office data centre to increase the server consolidation ratio to 100:1
d. Reduced the annual cost on hardware maintenance, network upgrades, cooling upgrades and insurance costs for physical assets
e. Reduced the infrastructure recovery time to 30 minutes with the help of VMware Data protection (VDP) which was 1-5 hours in phase 1

(q) Established Business Continuity and Disaster Recovery Centre

In order to counteract interruptions to business activities and to protect critical business processes from the effects of major failures of information systems or disasters and to ensure their timely resumption, IS & T Department had taken the initiative to establish a Disaster Recovery Centre (DRC) at our Lahore office. The DRC is vital for organizations holding data of significant importance. The SECP holds important financial data critical for the country's core infrastructure, keeping in view the business importance of the data and online services provided by the SECP for stakeholders, there was a dire need to have multiple layers of data protection, and to ensure maximum uptime for services. The establishment of DRC has enabled the SECP to switch to DRC in case of disaster of any nature. If the primary site goes down, critical services will be published from disaster recovery site and core operations will continue. The recovery time objective is 0.5 hours (30 minutes) after a disaster has been declared by the competent authority. All data is being replicated over the WAN link to the DRC. The remote site contains the data replica along with necessary computing power to run the production load in case of disaster which was properly planned and documented.

The first phase in deployment was Disaster Recovery Center Site Preparation which was successfully completed at the start of the year 2012. A state-of-the-art data centre was built in Lahore in coordination with the Administration Department. The second phase of the project started when the DRC equipment was shipped to the DR site, and all racks were mounted, necessary power and network cabling was done. The third phase of the project was completing the necessary configurations. The test run for the Disaster Recovery Site (DRS) was successful, and is now completely operational.

(r) Virtualization at SRO/CRO Karachi

Keeping in view that virtualization was the way forward, and the SRO/CRO Karachi being the second largest office of the SECP after the head office, with more than 120 users, there was a need to have a functional data centre at South Regional Office (SRO)/CRO Karachi. For this a state-of-the-art-data centre was designed and established at SRO/CRO Karachi. All necessary power and network cabling was done, racks were installed, and all existing servers were moved to the new data centre. Server consolidation was achieved, by having fewer physical hosts in Karachi, and maintaining a separate virtual data center (physical machines hosting the virtual environment) with central administration from the head office. This consolidation reduced the cost of cooling, reduced power and network cabling requirements for the data centre, as well as reduced the maintenance costs associated with running the data centre. At the same time, with virtualization technology IS & T Department ensured better availability and higher uptime of computing resources for the regional office users with optimal resource utilization.

(s) Auto Discovery Using WPAD

The infrastructure team at IS&T department recognized that SECP Internet and intranet users were facing a problem while moving their laptops from office to home daily where there they had another Internet connection. They had to change their IP addresses to match the settings on the home-based router and then switch back the next morning, which created a lot of hassle. Web Proxy Auto Detection (WPAD) is a Microsoft proprietary technology, which enables users to seamlessly connect to the internet in a corporate setup, where direct internet access due to viruses is a concern, and internet traffic filtering via proxy is mandatory to fulfill compliance requirements. WPAD allows for 'automatically detect settings' on client side to work seamlessly as they move between secure corporate network and less secure public/home networks. The user is unaware, while the network moulds itself in order to facilitate.

Administration Department

Subsequent to the reorganization at the SECP, the Administration Department has come within the ambit of Organization Effectiveness Division. It is dedicated to providing the administrative infrastructure to support the pursuit of excellence in travel and transport management, building maintenance, medical facility management, event management, procurement, general office upkeep and a few other support services. In addition to providing a support service, the Administration Department is committed to maintaining transparency in the procurement processes.

It now consists of five wings:

Travel and Transport Wings

The travel desk is responsible for airline and hotel reservations and processing of bills received from hotels and travel agents on a timely manner. Recently a panel of travel agents has been appointed and a travel desk of one of the travel agencies has been established at the SECP head office to manage travel arrangements expeditiously.

The transport wing manages the SECP's transport fleet and procures vehicles as and when required. During this year vehicles were handed over to officers without any delays in procurement and registration. In addition, a bi-annual exercise of inspection of vehicles has been instituted.

Facilities and Event Management Wing

The facilities have been reorganized within the ambit of the Administration Department. These include daycare centre, medical unit, gym, training room, front reception desk. For that matter the front reception desk staff has been properly trained. The professional trainers have been hired to instruct on how to train and exercise at the gym. A new medical policy has been introduced wherein introduction of bill to company option at a number of hospitals throughout the country has been offered to facilitate the employees. Moreover a fully equipped training room has been established where different workshops and training sessions are conducted.

For event management the Administration Department has appointed event managers to organize seminars, workshops, conferences and other events.

Procurement Wing

The process of procurement has been made more effective and efficient resulting in better quality standards as well as reduced turnaround time. Various vendors have been prequalified in different categories of procurement of goods and services to process procurement requests promptly. . Various service level agreements have been signed to ensure timeliness of operations. All inventory and miscellaneous items are also being procured efficiently according to the procurement policy.

Receipt and Management Wing

A new software to record the incoming and outgoing postal mail has been developed and implemented, which has made the operations of this wing much more efficient.

General Administration Wing

This wing has completed the construction of waiting room for drivers in basement No. 2, and is now conducting the renovation of kitchens and toilets at the head office.

In addition, the archiving of record is in progress and being handled expeditiously, this is a very important project aimed at standardizing and streamlining the record keeping and retrieval system for the SECP and has long-term implications.

2. Transformation and Knowledge Management Department

The SECP management created the T&KM Department to achieve the following objectives:

- To align its outstanding workforce, with its optimized business processes, and increased use of technology to foster a culture of excellence.
- To improve knowledge management within the SECP so that the right information is available to right people to make the right decision at the right time
- To improve interaction within and outside the SECP

Some of the projects currently being undertaken by the T&KM Department are:

(a) Business Process Management

This project aims at discovering, analyzing, re-engineering (if required), documenting and establishing Standard Operating Procedures (SOPs) for all the business processes of the SECP. A task force was formed for the purpose, comprising of members from all departments. A standard template for process discovery and documentation was developed. The AS-IS processes of all departments of the SECP have now been documented. The next step in the project will be to review these processes and identify how these processes can be optimized, which would lead to automation where possible and a paperless environment in the SECP.

(b) Brand Identity

A new brand identity of the SECP is being developed to show that it is an independent, modern, fair and transparent regulatory body. This includes development of a new logo with new corporate colours, and ensuring a consistent representation of the SECP in all communications within and outside the organization.

3. Complaints and Service Centre Department

The C&SC Department has been created to establish a central hub for all complaints and inquiries from the general public or the corporate sector. The service desk seeks to facilitate the integration of business processes into the service management infrastructure. In addition to resolving user complaints, it ensures that the enquiries are addressed to the satisfaction of the customer. The service desk is equipped with the latest technology and the users have the facility to get on the spot responses from the regulator itself through its specially appointed Points of Contact (PoCs). To further enhance the efficiency, the C&SC Department sends instant email alerts to PoCs and complainants for every new complaint and inquiry coming in the system.

The soft launch of the service desk has been very successful and the response from the people has been tremendous.

Future Plans

The future plans of all the departments in OED are given below:

1. IS & T Department

In order to improve the performance, reliability and stability, as well as to introduce new processes for automation, continuous changes, enhancements and upgrade of the eServices system will be done. A number of projects will be carried out to automate business processes of different functions of the SECP.

(a) Paperless Environment

eServices Programme, scanning and archiving of all files of the SECP, BPM, ERP and many other projects were initiated to create an environment where SECP can work in a paperless culture. A number of projects are planned to achieve the paperless environment:

- All previous SECP records were scanned and archived earlier under the outsourced scanning and archiving project. Additional documents have been generated since the completion of this project. An application has been used to scan and archive these additional documents. This application will be enhanced to facilitate the SECP officers in completing this task.
- A hard copy of the files is being maintained at different locations, at the head office, the regional offices and offsite as well. A file management system will be developed to keep track of the location of the different files, so if the hard copy is required for any purpose it can easily be tracked.
- The Business Process Management solution will be implemented to create a paperless environment. This will include the revamping of the registry function of the Admin Department. The optimization of these business processes carried out by T&KM Department, will help automate the processes resulting in a paperless environment.

- The business process monitoring will be a part of the BPM in order to keep track of the efficiency and effectiveness of the processes.

(b) Enterprise Resource Planning (ERP) Implementation Project

A world-class ERP system is being implemented within the SECP. The ERP is a single software application which tackles problems such as material shortages, customer service, finance management, quality issues and inventory problems. The SECP's ERP system will be a dashboard for higher management, ensuring efficient processes that will push it into top gear. The purpose of the ERP is to facilitate the flow of information between all business functions inside the boundaries of the SECP and manage the connections to outside stakeholders. This ERP system will collect the data related to the various functions like finance, admininstration and human resource management activites, and store into a single repository. The ERP also takes into account the several processes and the data sources pertaining to the SECP. These ERP hardware and software modules will be integrated to form a single enterprise resource planning system. With the implementation of the ERP solution, the SECP will be able to forecast accurately, integrate various departments, eradicate the problem of coordinating changes between many systems. The officials will have a top-down view of the organization. They will be making decisions anytime, anywhere with the available information.

(c) Commission's Web Portal

The portals provide a way for enterprises to provide a consistent look and feel with access control and procedures for multiple applications and databases, which otherwise would have been different entities altogether.

A comprehensive web portal is in its development phase, after completion and its deployment, this solution will bring information from diverse sources in a unified manner. In the SECP's portal, each information source will get its dedicated area on the page for displaying information (a portlet). The user will be able to configure, which information set will be displayed on the screen. This portal will provide standard search engines' features, and services, such as e-mail, news, stock prices information, databases, integrated applications, messaging, information dissemination system, schedules, document management, announcements, events, FAQs, feedback, flash, surveys and entertainment etc.

(d) Official Website of the Commission –Redesigning

The current website of the SECP will be redesigned using state-of-the-art web technologies. The updated website will be more user-friendly.

(e) Maintenance of Management Systems and Scheduling Third Party Surveillance Audits

For continual improvement of products and services as well as securing the information assets of the SECP, the IS&T Department has implemented and is maintaining Quality Management System (QMS) and Information Security Management System (ISMS) for last couple of years. The QMS ISO9001:2008 and ISMS ISO27001:2005 are the top industry, adopted best practices and international standards which address quality and information security. To assure that these systems are in compliance with International standards, an independent third party annual surveillance audit is scheduled.

(f) Capacity Building and Training Needs

The ISTD regularly carries out various trainings according to the training need analysis. This includes but is not limited to training of IT staff at CROs, end user trainings, capacity building at ISTD and preparation of training manuals and interactive CDs for the purpose.

(g) Provision of Mobile Computing Devices to Management Executive level Officers

As a continuation of provisioning, mobile computing devices to management cadre, the organization will extend provisioning of laptops to management executive level officers in the near future. This will enhance user trust and productivity, and will also be beneficial in reducing total cost of ownership in the long run.

(h) Storage Upgrade

In order to cope with growing needs for better performance and larger storage capacity, the IS & T Department has planned to replace the old SAN/NAS EMC NS-40 with a newer and better storage hardware by EMC, i.e., VNX 5300. This storage solution offers better performing hardware, greater bandwidth speed and more storage capacity at the same cost. With higher I/O operations per second, this storage solution will significantly improve database access and application performance. The old storage will be sent back to the vendor (against buy-back agreement) once migration of data is performed and data is validated on the newer storage solution. Moreover, with this storage solution there will be no restriction on amount of data that can be replicated to disaster recovery site.

(i) Colour LaserJet Printers for Department Heads

The SECP has decided to provide a high speed colour laser jet network printer to all heads of departments to provide instant printing facility of colour documents and reports etc.

(j) Network Protection Server (NPS) Deployment

The network security is of vital importance to any organization and is becoming a challenge as mobility is increasing in organizations worldwide. With a variety of users connecting over the Internet, and mobile workforce, which requires secure access to services are on the go. Intrusion prevention and network isolation of workstations, which can be harmful to the data and possibly can infect services is of great importance and is a matter of concern. The infrastructure team at IS&T foresaw the need to strengthen the network security by means of introducing certificate-based encryption technologies, for all forms of access to the network and critical data. The requirement to take measures against machines which are infected due to prolonged periods of network isolation which lack necessary updates; to provide them means to connect to an isolated network to download necessary updates to come in a healthy state, so that the workstation is able to gain the certificate necessary for communication with internal secured network.

Certificate-based encryption is the highest form of security to secure the internal network from possible hackers and no good doers from the Internet and the internal network. Only authenticated users will be allowed access to services. This state-of-the-art technology is in the planning and testing phase, after which it will be deployed in production to restrict access to only authenticated users and healthy machines after passing a defined and documented criterion.

(k) Direct Access

Keeping in view of the dire need of a mobile workforce, being able to work from a distance and having the same capability and access level to resources over the internet as if they were at office, the infrastructure team at IS & T Department has planned deployment of Direct Access technology by Microsoft. With direct access implemented along with Network Access Protection, the users will be able to connect with their workplace intranet and access network resources like email, Network Shares, and will be able to coordinate with people more effectively. Direct Access will ensure that the mobile workforce, and people who desire to work from home and whose services might be required at a crucial time during the weekend, can work seamlessly. Direct Access will enable people to work more effectively, and will allow them to have a working experience as if they are at their desk.

2. Transformation and Knowledge Management Department

The Transformation and Knowledge Management Department was formed as a result of a well-thought-out change strategy and transition plan. The purpose of this department is to introduce necessary changes to the structure, strategy, technology and culture that result in a metamorphosis to the desired state. The periodic interventions by T & KM Department are expected to bring about an embedded and marked change in organizational culture with a focus on continuous improvement. These are some of the activities/projects that the department has undertaken or plans to undertake.

(a) Business Process Management

Multiple projects will be undertaken including the business process management project started last year, which will be continued by optimizing the AS-IS business processes to form the TO-BE business processes. This will also include the documentation of SOPs in the form of manuals for standardization of the processes across all functions of the SECP.

(b) Knowledge Management

The projects in knowledge management will ensure that all knowledge generated by different officers, departments, and divisions across the different silos in the SECP is available to the authorized entities for decision-making.

(c) Interaction Within and Outside the SECP

These are the future projects to improve interaction within and outside the SECP:

- Ideas Portal: The Ideas Portal will serve as the main interaction for the employees of the SECP to generate and discuss new ideas. Any new idea generated by an employee will be taken up by an Idea Sponsor who will guide it to maturity.
- Discussion Forums: Discussion forums will be used to interact with outside stakeholders to get feedback and generate opinion on the various SECP initiatives.
- Regulatees' Awareness Programme: An awareness programme will be started for the different corporate sectors, regulated by the SECP. Periodic events will be held to guide, train, and increase awareness among the regulatees about the services provided by the SECP to help them comply with various rules and regulations.

(d) Outside Stakeholders' Awareness Programme

As a first step towards increasing public awareness and enhancing the SECP's image, the brand identity campaign was launched. The second phase of brand identity is a combination of the following segments:

- Social Media Campaign

Through the social media, T & KM aims to highlight SECP's role as a facilitator. Besides running an advertising campaign, the SECP website shall also be used to solicit public opinion on various laws and policies that have been implemented or are currently in the pipeline. The general public shall be able to raise any of their concerns on this platform, too.

- Outside Stakeholders' Focus Groups

The SECP will host focus group sessions periodically. The representatives from various companies shall be invited to discuss the current situation of their sector and the possible problems they face. They shall be encouraged to suggest viable solutions and share their knowledge of best international practices.

These sessions shall also be used to educate the public about the various electronic systems for capital market, specialized companies, registration and insurance sector that the SECP launches from time to time.

3. Service Desk and Complaint Centre Department

After a highly successful soft launch, the service desk and complaints centre shall be fully functional in the coming year. It shall address queries and complaints about all functions of the SECP.

4. Administration

1. New receipt and management facility which shall be a core step to achieving paperless environment;
2. The reconstruction of first and second floors which shall have conference and meeting rooms, offices, cafeteria for employees, and a entire new receipt and management set-up
3. The introduction of biometric system for physical security, visitor management, and assets movement control at the head office and all CROs
4. The implementation of Oracle-based ERP for the Administration Department processes
5. The renovation of the daycare facility
6. The introduction of unified communication system/switchboard
7. The construction of the CRO building in Islamabad
8. The renovation of newly acquired premises for Karachi Office and provision of facilities at par with the head office
9. The construction of head office in Islamabad and and regional offices in Karachi and Lahore

Muhammad Ali, Chairman, Securities and Exchange Commission of Pakistan, speaking at the "World Economic Forum on India 2012" at Gurgaon, India.

A Humming Bird exhibits a great hovering act in the air

No organization, public or private survives, let alone thrive, without paying sufficient attention to its human resources and their training needs. The SECP is fully cognizant of this fact. That's why it is doing its best to provide all kinds of trainings to its employees. It makes sure that employees keep sharpening the saw, to use Steve Covey's phrase.

Talent Management, Finance and Communications Division

Talent Management, Finance and Communications Division

Human Resources and Training Department

1. Amendment to House-Building Advance Policy

The HR&T Department addressed the grievances of the old terms and conditions (OTC) employees, whose services are governed under the SECP Service Manual, especially those who were over 50, and could not benefit from existing house building advance policy. HR&TD got the House Building Advance Policy approved by the Commission.

2. Amendments to HR Handbook (NTC Employees) and Service Manual (OTC Employees)

In order to address the grievances of the employees, the HR&T Department proposed a few amendments to the HR Handbook and Service Manual, which were approved by the Commission and the Policy Board. Some of amendments were as follows:

(i) All the leaves were transferred from the current year to the financial year.

(ii) By addressing the concerns of NTC employees regarding lapse of earned leave, the maximum accumulation was enhanced from 36 working days to 65 working days.

3. Performance Management System

Two separate forms were being used in the Commission for the Performance Management System: one for Performance Appraisal and one for Potential Assessment. The HR&T Department during the preceding year introduced a comprehensive form for all employees of the Commission.

The previous practice of performance appraisals required appraisals to be prepared for calendar year, i.e., January to December while the increments were given on July 1. Due to this, the appraisal period was not synchronized with the increments. Further, under the previous practice the appraisal process was initiated in January each year and was completed in March – April every year consuming three to four months, compared to one month in most of corporate sector organizations.

In order to streamline the appraisal process the HR&T Department got approval from the Commission that in future the appraisals will cover performance during the financial year, i.e., July to June each year. In addition, it was decided that the process would be started on May 1 and will be completed by June 15 each year.

Keeping in view the concerns on the existing appraisal system, the promotion policy and a general feeling that the bell curve can lead to bias, unfairness and subjectivity, the Commission decided elimination of the bell curve or amend it, so that the performance appraisal system can be fair, transparent and efficient.

4. Town Hall Meetings

In order to provide the opportunity for open communication between employees and top management, two town hall meetings were arranged by the HR&T Department. During these interactive meetings, the Chairman and Commissioners talked about key achievements of the commission and the way forward.

5. Junior Executives' Induction Scheme

During the year 2011-2012, 7 Junior Executives joined the SECP; the primary objective of Junior Executive induction is to inject fresh talent into the Commission. Almost 2,500 candidates appeared in the National Testing Service Test, out of which 108, who had secured 70% or more marks, were invited for interviews.

6. Knowledge Sharing After Trainings

In order to get maximum benefit from the learning obtained by an employee through attendance at any trainings/workshops/seminars/study tours locally or internationally, the HR&T Department ensured that all employees attending any training, abroad in particular, shall share their learning with other colleagues.

This knowledge sharing happens in the form of training sessions for fellow colleagues within a week of attending the training session. The arrangement of training sessions and selection of fellow colleagues is facilitated by HR&T Department in consultation with relevant department heads. Senior executives, the Commissioners and the Chairman also attend such sessions.

7. Verification of Degrees

The HR&T Department initiated the verification process for degrees of SECP employees. After getting approval from the Commission and the Policy Board, all degrees of existing employees have been verified from the Higher Education Commission or from the institutions that issued them.

8. Hiring of Interns

Thirteen interns were hired, out of which 9 were hired for CROs and were engaged in the scanning and archiving project. The other 4 interns were hired for the Company Law Review Commission.

9. Welfare Activities for Guards, Lift Operators and Cleaners

The HR&T Department took the initiative of taking voluntary financial contributions from all employees for the less privileged support staff comprising of cleaners, guards, lift operators and allied staff.

On the occasion of Eid ul Fitr, the employees contributed Rs 95,500, which was equally distributed among 34 individuals. Similarly, on the eve of Christmas, Rs 22,000 were received from the employees of the Commission which were also equally distributed among 11 janitorial staff/security guards.

10. CFA Scholarships

The CFA Institute offered 10 scholarships for the SECP employees. Accordingly, detailed policies and procedures were prepared by the HR&T Department. The policy and procedure was implemented after getting approval from the Commission. Consequently, four employees were facilitated through enrollment with the CFA Institute.

11. HR Policies and Procedures

In order to address the grievances of the SECP employees and to club the Human Resource Handbook and Service Manual, the HR&T Department hired consultants for revision of HR policies and procedure. The first draft of the Human Resources Policies and Procedures Manual was shared with the subcommittee, constituted to finalize the HR Policies and Procedures.

12. SECP Welfare Fund

The HR&T Department sought approval from the Commission regarding creation of the SECP Welfare Fund. The objective of this fund is to provide financial assistance to the serving /retired employees, as well as dependents of deceased employees through a properly regulated system that is to be devised for the trust. The broader aims and objectives of the fund will be as follows:

- To aid and promote educational facilities/activities for the beneficiaries
- To advance as a loan or stipend or grants to children of the beneficiary for the purpose of education at approved institutions as per laid down criteria
- Providing for welfare of the beneficiaries for meeting funeral and marriage expenses in accordance with the approved criteria
- To promote social, cultural and sports activities among the beneficiaries as per approval of the board of trustees
- Rendering financial support to beneficiaries who have for one reason or the other, fallen into distress

The Commission generously contributed Rs 1 million for the SECP Welfare Fund. The legal modalities of this initiative are underway and the same fund will be effective very soon.

13. Salary Rationalizing

In order to encourage and motivate employees whose salary had been benchmarked at less than their other colleagues in similar cadres and of similar designations, the HR&T Department rationalized salaries of relevant employees to bring better balance in payroll under guidance of the Commission.

As a result of the above mentioned criteria the salaries of Junior Executives and Assistant Directors which, had been below market salaries were adjusted considerably. Similarly, the salaries of some Deputy Directors, a few Joint Directors and Directors were also rationalized. This has resulted in elimination of salary disparity to a great extent, benefiting 107 employees.

14. Employee Relations Portal

In order to address the employees' concerns, the HR&T Department launched a new portal called 'Employee Relations' to address the concerns of employees. It will focus on the centralization of all issues.

15. Hajj Balloting

In continuation of providing an opportunity for performing the religious obligation of Hajj to three Muslim employees, this year three employees were selected through balloting: Jawad Hussain, senior office attendant, Karachi, Muhammad Naseem Khan, Islamabad, senior office attendant, and Khan Muhammad, watchman, Islamabad.

16. Employee Engagement Event: Jeeway Pakistan

Another employee engagement event comprising of a debating competition, a patriotic songs' competition, a quiz contest on facts about Pakistan, and a national dress competition was arranged for the SECP employees at the NIC auditorium attended by over 300 of our staff. The event celebrated the past and contemporary national heroes of Pakistan. The employees rejoiced by making motivational speeches about Pakistan and the event was followed by a dinner.

17. Training Programmes

Thirty-six employees attended 16 foreign trainings/seminars, whereas 121 employees participated in 33 local trainings/seminars/workshops pertaining to their relevant areas. Besides, 6 in-house training interventions of two to three hour duration were conducted. The training workshops included the 7 Habits of Highly Effective People, the SECP Values, Creating Hope and Happiness in a Challenging Environment, Information and Security Awareness, International Finance Cooperation and Public Speaking.

18. Daily Email Birthday Wish

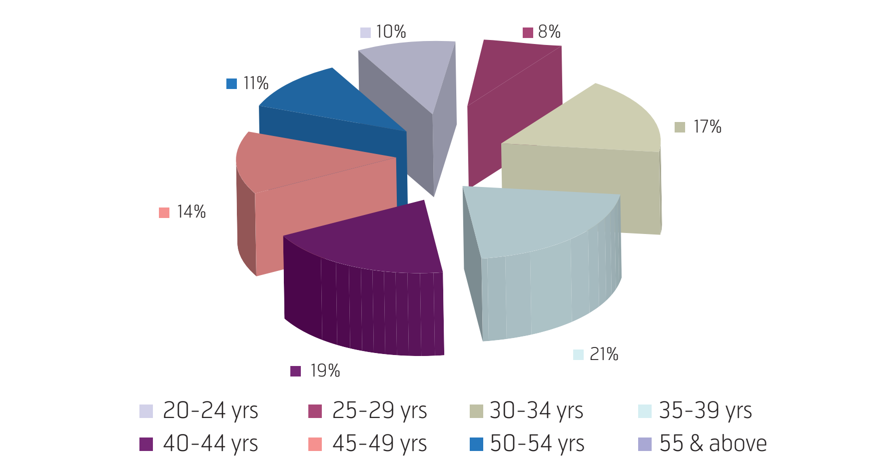
The Training and Organizational wing took the initiative of extending a personalized birthday wish to every SECP employee through email. This exercise not only congratulates the employee on turning a new leaf in his/her life but also captures information about world events and major celebrities born on the same day.

HR Demographics

A. AGE PROFILE OF SECP EMPLOYEES

Sr. No	Age Group	Total	Percent of Total
1	20-24	2	0.37%
2	25-29	41	7.51%
3	30-34	91	16.67%
4	35-39	116	21.25%
5	40-44	104	19.05%
6	45-49	79	14.47%
7	50-54	61	11.17%
8	55 & above	52	9.52%
Total		546	

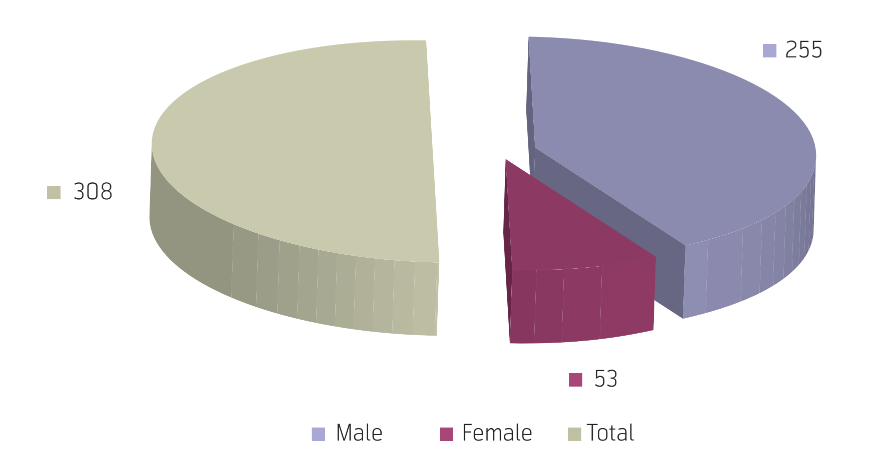
Overall age Profile (Percentage) of SECP



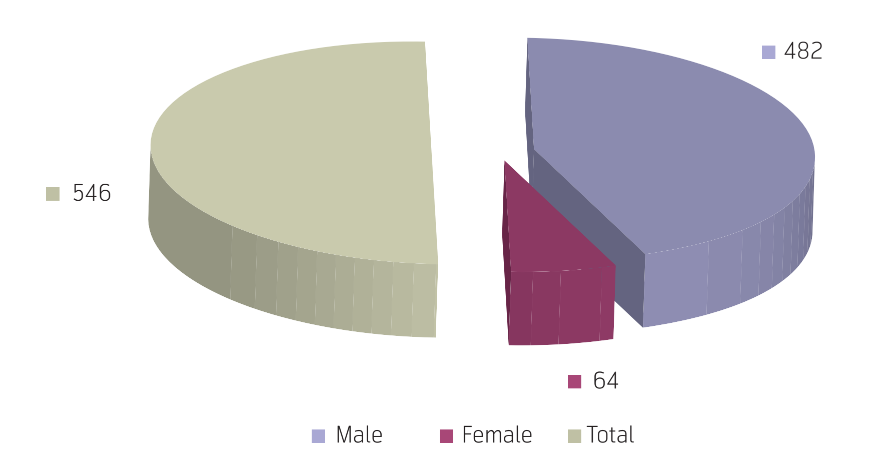
B. GENDER BREAKDOWN OF SECP EMPLOYEES

Management Cadre, Officers Cadre & Support Staff Cadre			
Cadre	**Male**	**Female**	**Total**
Management Cadre	255	53	308
Officers & Support Staff Cadre	227	11	238
Total	**482**	**64**	**546**

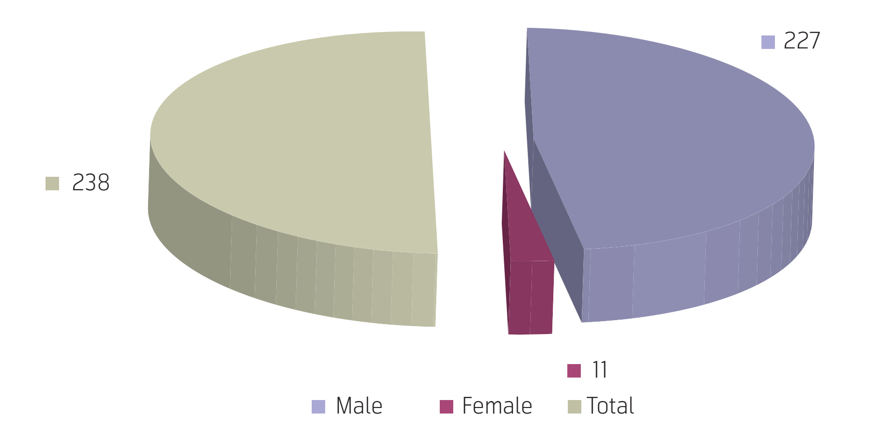
Overall age Profile of SECP



Overall Gender Position of SECP in 2011-2012



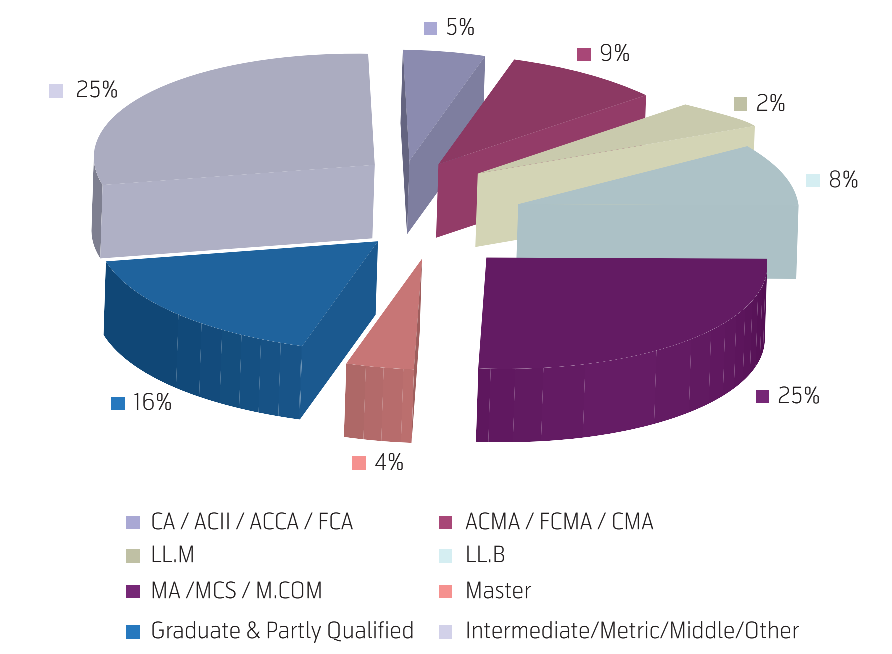
Gender-wise Profile of Officers & Support Staff Cadre Employees in 2011-2012



C. QUALIFICATIONS' PROFILE OF SECP EMPLOYEES

Sr. No	Qualification	Total	% of Total
1	CA/ACII/ACCA/FCA	26	5%
2	ACMA/FCMA/CMA	51	9%
3	LL.M	12	2%
4	LL.B	48	8%
5	MBA/MCS/M.Com	148	25%
6	Master's	23	4%
7	Graduate & Partly Qualified	92	16%
8	Intermediate/Matric/ Middle/ Other	146	25%
Total		**546**	

Qualifications' Profile of SECP Employees



Media and Corporate Communications Department

Media and Corporate Communications Department is in many ways the face of the SECP. It liaises with the media, issues press releases and makes announcements on behalf of various departments. In addition, it is responsible for the compilation and editing of important documents such as the Annual Report.

It also organizes training sessions for journalists in Islamabad, Lahore and Karachi. It also coordinates with the Finance Ministry with regard to the material for the Economic Survey. The department is being expanded to have wings such as Public Affairs, Brand and Advocacy, Publications and Research and Social Media.

The SECP Chairman and Commissioners with Mr. Justice Umar Ata Bandial, Chief Justice, Lahore High Court, after a symposium organized by the SECP and the Punjab Judicial Academy

A richly coloured and vibrant Sun Conure Parrot

No organization can work effectively without accurate and comprehensive statistics. Being the apex regulator of the capital market, the Securities and Exchange Commission of Pakistan places a great deal of emphasis on accuracy and comprehensiveness of statistics.

Appendices

Financial Statements

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A. F. FERGUSON & CO.

INDEPENDENT AUDITORS' REPORT
TO THE FEDERAL GOVERNMENT OF PAKISTAN

We have audited the accompanying financial statements of the Securities and Exchange Commission of Pakistan (the Commission), which comprise the statement of financial position as at June 30, 2012 and the statement of comprehensive income, the statement of cash flows and the statement of changes in funds for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Commission as at June 30, 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Accountants
Islamabad: October 22, 2012

Engagement partner: S. Haider Abbas

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Lahore: 23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O. Box 39, Lahore 54660, Pakistan; Tel: +92 (42) [illegible]; Fax: +92 (42) [illegible]
Kabul: House No. 1, Street No. 3, Darulaman Road, Ayoub Khan Mena, Opposite Ayoub Khan Mosque, Kabul, Afghanistan; Tel: +93 [illegible]

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2012

	Note	2012	2011
		(Rupees in thousand)	
Property and equipment	4	252,847	231,078
Intangibles	5	20,608	19,090
Long term investments	6	300,000	509,190
Loans and advances	7	33,541	26,181
CURRENT ASSETS			
Advances, deposits, prepayments and other receivables	8	336,748	544,356
Short term investments	9	3,069,274	2,522,368
Cash and bank balances	10	199,602	60,101
		3,605,624	3,126,825
CURRENT LIABILITIES			
Accrued and other liabilities	11	(524,958)	(504,532)
Net current assets		3,080,666	2,622,293
Provision for prior years' taxation		-	(42,316)
Deferred taxation	12	12,825	(8,268)
Deferred liability	13	(59,564)	(46,740)
Deferred grant	14	-	(1,232)
Net assets		3,640,923	3,309,276
REPRESENTED BY:			
General reserve		800,000	800,000
Assets (land and building) acquisition reserve		2,600,000	2,600,000
Accumulated comprehensive surplus/ (deficit) of income over expenditure		240,923	(90,724)
		3,640,923	3,309,276
Contingencies and commitments	15		

The annexed notes 1 to 26 form an integral part of these financial statements.

CHAIRMAN

COMMISSIONER

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012	2011
		(Rupees in thousand)	
INCOME			
Fees and other recoveries	16	1,450,123	1,609,270
Other income	17	456,232	411,845
		1,906,355	2,021,115
EXPENDITURE			
Salaries, allowances and other benefits	18	873,260	906,778
Operating expenses	19	401,508	332,733
Depreciation and amortization		95,058	99,446
Amortization of premium on Pakistan Investment Bonds		11,491	8,634
Impairment loss on investment in associate		28,000	-
Bank charges		4,247	3,840
		1,413,564	1,351,431
EXCESS OF INCOME OVER EXPENDITURE		492,791	669,684
Amortization of deferred grant		1,232	217
SURPLUS OF INCOME OVER EXPENDITURE BEFORE TAX		494,023	669,901
TAXATION	20	188,185	255,088
SURPLUS OF INCOME OVER EXPENDITURE AFTER TAX FOR THE YEAR		305,838	414,813
Reversal of provision for prior years' taxation		42,316	461
SURPLUS OF INCOME OVER EXPENDITURE AFTER TAX		348,154	415,274
OTHER COMPREHENSIVE (DEFICIT) OF INCOME OVER EXPENDITURE - NET OF TAX			
Actuarial losses on staff retirement funds	11.1.3	(25,395)	(29,813)
Tax credit related to actuarial losses on staff retirement funds		8,888	10,434
		(16,507)	(19,379)
TOTAL COMPREHENSIVE SURPLUS OF INCOME OVER EXPENDITURE		331,647	395,895

The annexed notes 1 to 26 form an integral part of these financial statements.

CHAIRMAN

COMMISSIONER

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012	2011
		(Rupees in thousand)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus of income over expenditure before tax		494,023	669,901
Adjustments for:			
- Depreciation and amortization		95,058	99,446
- Amortization of premium on Pakistan Investment Bonds		11,491	8,634
- Impairment loss on investment in associate		28,000	-
- Amortization of deferred grant		(1,232)	(217)
- Provision for pension		24,019	44,370
- Provision for gratuity		40,666	49,560
- Provision for leave encashment		15,496	8,398
- Interest income		(453,584)	(409,468)
- Gain on sale of property and equipment		(2,599)	(1,230)
		(242,685)	(200,507)
Operating income before working capital changes		251,338	469,394
Increase in loans to employees and advances, deposits, prepayments and other receivables		(26,759)	(65,568)
Increase in accrued and other liabilities		82,789	146,673
		307,368	550,499
Contribution to pension fund		(100,424)	(117,624)
Contribution to gratuity fund		(52,018)	(109,771)
Leaves encashed		(2,672)	(3,158)
Taxes paid		(211,398)	(253,903)
		(366,512)	(484,456)
Net cash (used in)/ generated from operating activities		(59,144)	66,043
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(123,512)	(69,225)
Proceeds from sale of property and equipment		7,766	11,276
Investments - net		(377,207)	(315,769)
Interest received on investments and bank deposits		691,598	229,275
Net cash generated from/ (used in) investing activities		198,645	(144,443)
Net increase/ (decrease) in cash and cash equivalents		139,501	(78,400)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		60,101	138,501
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	10	199,602	60,101

The annexed notes 1 to 26 form an integral part of these financial statements.

CHAIRMAN

COMMISSIONER

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General reserve	Assets (land and building) acquisition reserve	Accumulated comprehensive (deficit)/ surplus of income over expenditure	Total
	---------- Rupees in thousand ----------			
Balance as at June 30, 2010	800,000	2,600,000	(486,619)	2,913,381
Comprehensive income:				
Surplus of income over expenditure	-	-	415,274	415,274
Other comprehensive deficit of income over expenditure	-	-	(19,379)	(19,379)
	-	-	395,895	395,895
Balance as at June 30, 2011	800,000	2,600,000	(90,724)	3,309,276
Comprehensive income:				
Surplus of income over expenditure	-	-	348,154	348,154
Other comprehensive deficit of income over expenditure	-	-	(16,507)	(16,507)
	-	-	331,647	331,647
Balance as at June 30, 2012	800,000	2,600,000	240,923	3,640,923

The annexed notes 1 to 26 form an integral part of these financial statements.

CHAIRMAN

COMMISSIONER

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

1. LEGAL STATUS AND OPERATIONS

Securities and Exchange Commission of Pakistan (the Commission) was established as a body corporate under the Securities and Exchange Commission of Pakistan Act, 1997 (the Act) for the beneficial regulation of capital markets, superintendence and control of corporate entities and for matters connected therewith and incidental thereto. The Commission operates through eight Company Registration Offices across the country.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Federation of Accountants (IFAC). However, the Commission is not required to comply with the requirements of IFRSs.

Preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Commission's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.15.

As per amendment in SECP Act 1997 through Finance Act 2012, any surplus of receipts over the actual expenditure in a year, after payment of tax, shall be remitted to the Federal Consolidated Fund. Any deficit from the actual expenditure shall be borne by the Federal Government and all fines and penalties recovered by the Commission shall be credited to the Federal Consolidated Fund. This amendment is effective from July 1, 2012.

Amendments to published standards and new standards:

Standards, amendments and interpretations to existing standards that are not yet effective have not been early adopted by the Commission.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any, except for leasehold land and capital work in progress which are stated at cost.

Depreciation is calculated on straight line method to write off the depreciable amount of each asset over its estimated useful life. Rates of depreciation are specified in note 4 to the financial statements. Depreciation on additions during the year is charged from the date of acquisition or the date the asset is available for use and on disposals up to the date of disposal.

Maintenance and normal repairs are charged to income as and when incurred. Major repairs and improvements are capitalized and the assets so replaced, if any, are derecognized. Gains and losses on disposal of property and equipment are included in the income currently.

3.2 Intangibles

Intangible assets are stated at cost less accumulated amortization except for intangible assets under development which are stated at cost. Amortization on intangible assets is calculated on straight-line basis at rates specified in note 5 to the financial statements.

-2-

3.3 **Taxation**

Current

Provision for current taxation is based on taxable income at the current rate of tax after taking into account applicable tax credits, rebates and exemptions available, if any.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all taxable temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable surplus will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantially enacted by the date of issue of financial statements.

3.4 **Receivables**

These are stated at cost less allowance for any uncollectible receivables.

3.5 **Payables**

These are carried at cost which is the fair value of the consideration to be paid in the future.

3.6 **Employee benefits**

Defined contribution plan

The Commission maintains an approved defined contributory provident fund for its employees eligible for this benefit plan as per policies of the Commission. The Commission's contribution to defined Contributory Provident Fund @10% of basic salary is charged to the statement of comprehensive income for the year.

Defined benefit plans

The Commission operates following defined benefit plans for its eligible employees:

(i) **Pension Fund**

The Commission maintains approved funded defined pension plan for its employees eligible for this benefit plan as per policies of the Commission. Annual contributions are made to the Fund on actuarial recommendations using "Projected Unit Credit Method". The most recent actuarial valuation was conducted on June 30, 2012.

(ii) **Gratuity Fund**

The Commission maintains approved funded defined gratuity plan for its employees eligible for this benefit plan as per policies of the Commission. Annual contributions are made to the Fund on actuarial recommendations using "Projected Unit Credit Method". The most recent actuarial valuation was conducted on June 30, 2012.

Actuarial gains/ losses arising on defined benefit plans are recognized at higher of one-third of the cumulative actuarial gains/ losses at end of the current reporting period or 'corridor' approach in the Statement of Comprehensive Income as other comprehensive income.

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Compensated absences

The Commission recognizes provision for compensated absences payable to employees at the time of retirement/ termination of service.

The provision for compensated absences is determined on the basis of actuarial recommendations using "Projected Unit Credit Method". The most recent actuarial valuation was conducted on June 30, 2012.

3.7 Deferred grant

Grants related to fixed assets are deferred and are recognized as income over the period necessary to match them with the carrying value of the related assets.

3.8 Revenue recognition

Fees and other recoveries are recognized on accrual basis.

Penalties are recognized on receipt basis.

Income on investments and bank deposits is recognized on time proportion basis.

3.9 Impairment

The carrying amounts of the Commission's assets are reviewed at each reporting date to determine whether there is any indication of impairment loss. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss or reversal of impairment loss is recognized in the statement of comprehensive income.

3.10 Investments

Held to maturity

Investments with fixed or determinable payments and fixed maturity, that the Commission has positive intent and ability to hold to maturity are classified as held to maturity investments and are carried at amortized cost less impairment losses. Premium paid on purchase of investments is amortized using effective interest method.

Available for sale

These investments are measured at fair value. Investment in unquoted securities are measured at cost less impairment losses, if any.

Investment in associate

These are accounted for using the equity method, whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Commission's share of the net assets of the associate. The statement of comprehensive income reflects the Commission's share of the results of the operations of the associate. Where there has been a change recognized in the other comprehensive income of the associate, the Commission recognizes its share of any change in its other comprehensive income.

The Commission determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Commission calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the same in the statement of comprehensive income.

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3.11 Long term loans to employees

Long term loans are initially recognized at present value of loan amount disbursed. On initial recognition, the discount representing difference between loan disbursed and its present value is charged in the statement of comprehensive income. Subsequently, the unwinding of discount on present value of loans is recognized as income over the loan term using effective interest method.

3.12 Provisions

Provisions are recognized when the Commission has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount can be made.

3.13 Financial Instruments

Financial assets and financial liabilities are recognized when the Commission becomes party to contractual provisions of the instrument. These are initially measured at cost, which is the fair value of the consideration given or received. These financial assets and liabilities are subsequently measured at fair value and amortized cost as the case may be. The Commission derecognizes financial assets and liabilities when it ceases to be a party to such contractual provisions of the instruments.

3.14 Cash and cash equivalents

For the purposes of statement of cash flows, cash and cash equivalents comprise cash in hand and bank balances.

3.15 Use of critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Commission makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The material estimates and assumptions used to measure and classify the carrying amounts of assets and liabilities are outlined below:

(i) Useful lives of property and equipment and intangibles (notes 4 and 5)
(ii) Provision for current and deferred taxation (note 20)
(iii) Provision against staff retirement benefits (note 11.1 and 13)

(b) Critical judgments in applying the entity's accounting policies

There have been no critical judgments made by the Commission's management in applying the accounting policies that would have a significant effect on the amounts recognized in the financial statements.

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4. PROPERTY AND EQUIPMENT

Statement of property and equipment is as follows:

	Leasehold land	Building	Leasehold improvement	Office equipment	Other equipment	Computers	Furniture and fixtures	Vehicles	Subtotal	Capital work-in-progress	Total
	Rupees in thousand										
Cost	2,053	34,264	52,284	42,632	8,735	250,273	27,562	175,391	593,194	61,968	655,162
Accumulated depreciation	-	(16,721)	(29,078)	(30,542)	(4,283)	(197,054)	(20,438)	(84,982)	(383,096)	-	(383,096)
Net book value as at June 30, 2010	2,053	17,543	23,206	12,090	4,452	53,219	7,124	90,409	210,098	61,958	272,064
Additions	-	-	255	2,412	-	30,590	1,270	8,167	42,694	15,840	58,534
Transfers	-	-	-	-	-	-	-	36,898	36,898	(36,898)	-
Disposals											
Cost	-	-	-	-	-	(300)	-	(27,486)	(27,786)	-	(27,786)
Depreciation	-	-	-	-	-	257	-	17,483	17,740	-	17,740
Net book value	-	-	-	-	-	(43)	-	(10,003)	(10,046)	-	(10,046)
Depreciation	-	(1,712)	(7,329)	(5,799)	(1,748)	(34,132)	(1,645)	(37,109)	(89,474)	-	(89,474)
Net book value as June 30, 2011	2,053	15,831	16,132	8,703	2,704	49,634	6,749	88,360	190,166	40,912	231,078
Cost	2,053	34,264	52,539	45,044	8,735	280,563	28,832	192,968	644,998	40,912	685,910
Accumulated depreciation	-	(18,433)	(36,407)	(36,341)	(6,031)	(230,929)	(22,083)	(104,608)	(454,832)	-	(454,832)
Net book value as at June 30, 2011	2,053	15,831	16,132	8,703	2,704	49,634	6,749	88,360	190,166	40,912	231,078
Additions	-	1,181	2,409	7,855	-	23,952	3,964	25,113	64,474	51,509	115,983
Transfers to property and equipment	-	-	18,152	2,743	-	-	8,303	15,707	44,905	(44,905)	-
Adjustments	-	-	-	-	-	-	-	-	-	(2,394)	(2,394)
Disposals											
Cost	-	-	-	-	-	(748)	-	(35,002)	(35,748)	-	(35,748)
Depreciation	-	-	-	-	-	592	-	29,989	30,581	-	30,581
Net book value	-	-	-	-	-	(154)	-	(5,013)	(5,167)	-	(5,167)
Depreciation	-	(1,754)	(8,516)	(5,877)	(1,747)	(30,601)	(1,353)	(36,805)	(86,653)	-	(86,653)
Net book value as June 30, 2012	2,053	15,258	28,177	13,424	957	42,831	17,663	87,362	207,725	45,122	252,847
Cost	2,053	35,445	73,100	55,642	8,735	303,769	41,099	198,786	718,629	45,122	763,751
Accumulated depreciation	-	(20,187)	(44,923)	(42,218)	(7,778)	(260,938)	(23,436)	(111,424)	(510,904)	-	(510,904)
Net book value as at June 30, 2012	2,053	15,258	28,177	13,424	957	42,831	17,663	87,362	207,725	45,122	252,847
Depreciation rate (%) per annum	-	5%	20%	20%	30%	20% / 25%	10%	20%			

4.1 Cost of property and equipment includes fully depreciated leasehold improvements, office equipment, computers, furniture and fixtures and vehicles of Rs. 23,414 thousand, Rs. 31,431 thousand, Rs. 240,662 thousand, Rs. 17,116 thousand and Rs. 21,405 thousand (2011 : Rs. 16,058 thousand, Rs. 27,011 thousand, Rs. 202,606 thousand, Rs. 13,282 thousand and Rs. 16,693 thousand) respectively that were still in use at the year end.

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5. INTANGIBLES

	Computer Software (Rupees in thousand)
Cost	37,836
Accumulated amortization	(19,464)
Net book value as at June 30, 2010	18,371
Additions	10,691
Amortization	(9,972)
Net book value as at June 30, 2011	19,090
Cost	48,526
Accumulated amortization	(29,436)
Net book value as at June 30, 2011	19,090
Additions	9,923
Amortization	(8,405)
Net book value as at June 30, 2012	20,608
Cost	58,449
Accumulated amortisation	(37,841)
Net book value as at June 30, 2012	20,608
Amortization rate (%) per annum	25%

6. LONG TERM INVESTMENTS

	2012	2011
	(Rupees in thousand)	
Held to maturity		
Pakistan Investment Bonds - note 6.1	-	199,190
Regular Income Certificates - note 6.2	300,000	300,000
	300,000	499,190
Investment in associate - Unquoted		
Pakistan Institute of Capital Markets - note 6.3	28,000	10,000
Less: Impairment loss on investment	(28,000)	-
	-	10,000
	300,000	509,190

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	2012	2011
	(Rupees in thousand)	

6.1 Pakistan Investment Bonds

	2012	2011
Face value	185,000	235,000
Unamortized premium	3,370	14,861
	188,370	249,861
Less: Investments maturing within one year	(188,370)	(50,671)
	-	199,190

This represents investment in ten year Pakistan Investment Bonds (PIBs) having face value of Rs. 185 million. Profit is receivable semi-annually at the rates ranging between 9% to 12% per annum (2011: 9% to 12% per annum). Fair value of these PIBs at the year end was Rs. 183.015 million (2011: Rs. 225.77 million). These investments will mature in years 2012 and 2013.

6.2 Regular Income Certificates

This represents investment in Regular Income Certificates (RICs) under National Savings Scheme. These carry mark up at the rate of 13.6% per annum which is receivable on monthly basis. Fair value of these RICs is Rs. 300 million as at June 30, 2012 (2011: 300 million). These investments will mature in 2014.

6.3 Investment in Pakistan Institute of Capital Markets

The Pakistan Institute of Capital Markets (the Institute) has an authorised share capital of Rs. 50,000,000 representing 10,000 ordinary shares of Rs 5,000 each and issued, subscribed and paid up capital of Rs. 38,000,000 representing 7,600 ordinary shares of Rs 5,000 each. The Commission is one of the subscribers of the Institute having investment comprising 74% of the total share capital of the Institute. However, the Institute is an associate of the Commission since the Commission has no controlling power over the financial and operating policies of the Institute, as the Commission has only 3 directors out of a total of 12 directors.

Further, the Commission has undertaken to contribute an amount not exceeding Rs 50,000 to the assets of ICM in the event of it being wound up.

6.3.1 Summary financial information of associate based on latest available financial statements

	June 30, 2012	June 30, 2011
	(Rupees in thousand)	
Assets	16,407	4,852
Liabilities	133	509
Equity	16,274	4,343
Revenue	2,543	3,600
Profit/ (loss) after tax	(7,069)	(7,416)

The information presented above in respect of the financial information of Pakistan Institute of Capital Markets for the current period is unaudited.

7. LOANS AND ADVANCES

	2012	2011
	(Rupees in thousand)	
Loans and advances - considered good	86,883	70,131
Less: current portion of loans and advances	(32,762)	(29,331)
	54,121	40,800
Less: provision for imputed interest on loans and advances	(20,580)	(14,619)
	33,541	26,181

These represent interest free loans to employees for various purposes as per their employment terms, secured against employees' retirement benefits. Principal amount of loan is recoverable in periods upto January 2021 in monthly installments.

8. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2012	2011
	(Rupees in thousand)	
Current portion of loans and advances - considered good	32,762	29,331
Short term loans to employees - secured, considered good - note 8.1	10,046	12,927
Advances	54,197	3,125
Deposits	16,621	2,758
Prepayments	7,379	56,635
Advance tax - net	26,701	15,694
Fee receivable - considered good	8,618	5,126
Mark up receivable - note 8.2	176,546	414,560
Other receivables - considered good	3,878	4,200
	336,748	544,356

8.1 These represent interest-free house rent advance given to employees recoverable/ adjustable on monthly basis. The amount is secured against the employees' share of post employment benefits. The balance receivable has been discounted and shown at net present value.

8.2 Mark up receivable

	2012	2011
	(Rupees in thousand)	
Long term investments	7,765	10,702
Short term investments	168,781	402,891
Loans and advances	-	967
	176,546	414,560

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9. SHORT TERM INVESTMENTS

	2012	2011
	(Rupees in thousand)	
Special Savings Account - National Savings Scheme - note 9.1	522,383	2,374,637
Investment in Term Deposit Receipts (TDRs) - note 9.2	450,000	-
Investment in Government Treasury Bills (T-Bills) - note 9.3	1,408,521	97,060
Special Notice Deposit Receipts (SNDR) - note 9.4	500,000	-
Current portion of long term investment	188,370	50,671
	3,069,274	2,522,368

9.1 This represents investment in special saving account under National Savings Scheme. These carry mark up at the rates of 11.6% to 13.2% (2011: 11.6% to 14.4%) per annum. Mark-up is receivable after every 6 months and in case mark-up is not withdrawn, it automatically stands reinvested and the corresponding markup rate applied on principal for future periods is enhanced to reflect this reinvestment. Maturity period of this investment is three years.

9.2 This represents investment in one year Term Deposit Receipts of National Bank of Pakistan at the annual rate of 11.93% maturing in March 2013.

9.3 This represents investment in T-Bills ranging from six months to one year. The rate of mark-up ranges from 11.62% to 11.95% per annum. These investments will mature by June 2013.

9.4 This represent investment in seven days "Special Notice Deposit Receipts (SNDR)" of National Bank of Pakistan at the rate of 11.20 % per annum.

10. CASH AND BANK BALANCES

	2012	2011
	(Rupees in thousand)	
Cash in hand	340	238
Cash at bank - interest bearing accounts - note 10.1	199,262	59,863
	199,602	60,101

10.1 This represents cash maintained in MCB's interest bearing bank accounts carrying mark-up rates ranging from 5% to 8.25% (2011: 5% to 9.5%) per annum.

	2012	2011
	(Rupees in thousand)	
11. ACCRUED AND OTHER LIABILITIES		
Accrued expenses	101,549	51,645
Bonus payable	117,916	140,763
Accounts payable	967	1,896
Withholding tax payable	2,602	364
Payable to staff retirement funds - note 11.1	(1,592)	60,770
Unearned income - note 11.2	129,145	115,367
Provident fund payable	-	1,242
Levies payable	159,400	116,536
Other liabilities	14,971	15,949
	524,958	504,532

11.1 Payable to staff retirement funds

	2012	2011
Pension fund	(5,683)	60,357
Gratuity fund	4,091	413
	(1,592)	60,770

11.1.1 ***The amount recognized in the statement of financial position is as follows:***

	Pension fund 2012	Pension fund 2011	Gratuity fund 2012	Gratuity fund 2011
	Rupees in thousand			
Present value of defined benefit obligation - note 11.1.5	343,411	302,152	321,685	254,186
Fair value of plan assets - note 11.1.6	(328,363)	(205,641)	(287,534)	(226,120)
Deficit in the fund	15,048	96,511	34,151	28,066
Net unrecognized actuarial losses	(20,731)	(31,974)	(30,060)	(27,653)
Non vested past service cost	-	(4,180)	-	-
Net liability recognized in the balance sheet	(5,683)	60,357	4,091	413

11.1.2 ***The amount charged to comprehensive surplus of income over expenditure is as follows:***

	Pension fund 2012	Pension fund 2011	Gratuity fund 2012	Gratuity fund 2011
Current service cost	13,357	13,144	40,378	35,570
Interest cost	40,816	42,955	34,055	27,785
Expected return on plan assets	(34,334)	(15,909)	(33,767)	(13,795)
Past service cost	4,180	4,180	-	-
	24,019	44,370	40,666	49,560

11.1.3 ***The amount charged to other comprehensive surplus of income over expenditure is as follows:***

	Pension fund 2012	Pension fund 2011	Gratuity fund 2012	Gratuity fund 2011
Actuarial losses recognized	10,365	15,987	15,030	13,826
Cumulative losses recognized in other comprehensive income	137,340	126,975	84,963	69,933

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	Pension fund		Gratuity fund	
	2012	2011	2012	2011
	------------Rupees in thousand------------			

11.1.4 *Return on plan assets*

Expected return on plan assets	34,334	15.909	33,767	13,795
Actual return on plan assets	40,636	17,312	31,267	26,739

The expected return on plan assets is based on the market expectations and depends upon the asset portfolio of the Fund, at the beginning of the year.

11.1.5 *Changes in present value of defined benefit obligation*

Opening balance of the defined benefit obligation	302,152	306,820	254,186	196.462
Current service cost	13,357	13,144	40,378	35.570
Interest cost	40.816	42,955	34,055	27.785
Benefits paid	(21.215)	(52,759)	(21,871)	(17.849)
Amount received from Government of Pakistan	2,877	14,556	-	-
Actuarial losses/ (gains)	5,424	(22,564)	14,937	10,218
Closing balance of the defined benefit obligation	343,411	302,152	321,685	254,186

11.1.6 *Changes in fair value of plan assets*

Opening balance of fair value of plan assets	205,641	108.908	226.120	107,459
Expected return on plan assets	34,334	15.909	33,767	13,795
Contributions to the fund	100,424	117,624	52,018	109.771
Benefits paid	(21,215)	(52,759)	(21,871)	(17.849)
Amount received from Government of Pakistan	2,877	14,556	-	-
Actuarial gains/ (losses)	6,302	1,403	(2,500)	12.944
Closing balance of fair value of plan assets	328,363	205,641	287,534	226.120

The Commission expects to contribute Rs. 22,959 thousand (2011: Rs 40.067 thousand) and Rs 64.720 thousand (2011: Rs. 53,547 thousand) to its defined benefit pension and gratuity plans respectively during the next year.

11.1.7 *Break-up of category of assets*

	Pension fund		Gratuity fund	
	2012	2011	2012	2011
	------------Rupees in thousand------------			
Pakistan Investment Bonds	28,823	27,028	7.261	6,806
Special Savings Certificates	200,112	172,138	121,280	165,954
Treasury Bills	60,000	-	112.723	-
Bank accounts	39,428	6.475	46.270	53,360
	328,363	205.641	287.534	226,120

11.1.8 *Principal actuarial assumptions*

Actuarial valuation is carried out annually. Latest actuarial valuation was carried out as at June 30, 2012 using Projected Unit Credit Method. Significant actuarial assumptions used are as follows:

	Pension fund		Gratuity fund	
	2012	2011	2012	2011
Valuation discount rate - per annum	12.5%	14%	12.5%	14%
Salary increase rate - per annum	12.5%	14%	12.5%	14%
Expected return on plan assets - per annum	12.5%	14%	12.5%	14%

11.1.9 ***Disclosure for current and previous four annual periods for pension and gratuity plans***

	2012	2011	2010	2009	2008
	Rupees in thousand				
Present value of the defined benefit obligations	665,096	556,338	505,282	324,207	323,136
Fair value of plan assets	(615,897)	(431,761)	(216,368)	(144,707)	(108,674)
Deficit in the plans	49,199	124,577	288,914	179,500	214,462
Experience adjustments on plan liabilities	20,361	(12,346)	111,538	17,272	24,231
Experience adjustments on plan assets	3,802	14,347	(9,257)	(284)	(24,993)

11.2 **Unearned income**

This represents amount received in advance from companies for various transactions under the Companies Ordinance,1984 and NBFC and Notified Entities Regulations, 2008.

12. DEFERRED TAXATION

The net balance of deferred taxation is in respect of the following temporary differences:

	2012	2011
	(Rupees in thousand)	
- Accelerated depreciation and amortization	21.892	20,410
- Profit on short term investments accrued not received	(26.340)	(33,795)
- Discount on long term loan	7,473	5,117
- Impairment loss on investment in associate	9,800	-
	12,825	(8,268)

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13. DEFERRED LIABILITY

This represents the Commission's liability towards employees' compensated absences which is payable at the time of separation of eligible employees.

	2012	2011
	(Rupees in thousand)	
Obligation at beginning of the year	46,740	41,500
Expense for the year	15,496	8,398
Leaves encashed during the year	(2,672)	(3,158)
Obligation at end of the year	59,564	46,740

Principal actuarial assumptions

Latest actuarial valuation was carried out as at June 30, 2012 using Projected Unit Credit Method. Significant actuarial assumptions used are as follows:

	2012	2011
Valuation discount rate - per annum	12.5%	14%
Salary increase rate - per annum	12.5%	14%

14. DEFERRED GRANT

	(Rupees in thousand)	
Grant related to assets	12,044	12,044
Less: Accumulated amortization	(12,044)	(10,812)
	-	1,232

This represents grant related to assets received from dissolved Corporate Law Authority, re-appropriation of funds by Government of Pakistan and technical assistance from Asian Development Bank. The deferred grant is amortized to the extent of the depreciation for the year on related assets. The respective grant has been fully amortized during the year.

15. CONTINGENCIES AND COMMITMENTS

15.1 Contingencies

(i) Certain parties filed suits against the Commission in respect of claims for damages. Those parties along with claims for damages are presented below:

	2012	2011
	(Rupees in thousand)	
Investec Securities	2,000,000	2,000,000
Abdul Karim K. Kara	1,111,000	-
Al Mal Securities	206,000	206,000
Shaikh Abdul Wahid and others	213,000	213,000
Nadeem Ahmed Khan	-	1,000,000
Irfan Ahmad Sheikh	100,000	-
Irfan Iqbal Puri	100,000	-
Other parties	41,300	-

Based on legal advise, the Commission is confident of a favorable outcome of these cases and that there will be no financial impact of these cases.

(ii) The Commission has been made party in various legal cases including a case filed by the official liquidator of the Islamic Investment Bank. Based on legal advise, the Commission believes that the outcome of these cases would not result in any financial exposure to the Commission.

15.2 Commitments

Aggregate commitments for contracted capital expenditure at end of the year amounted to Rs. 147.502 million. (2011: Rs. 72.050 million).

	2012	2011
	(Rupees in thousand)	
16. FEES AND OTHER RECOVERIES		
Fees under the Companies Ordinance, 1984	929,918	1,071,929
Fees under the Modaraba Ordinance, 1980	8,226	3,394
Fees under the Insurance Ordinance, 2000	181,316	167,005
Fees on transactions executed at stock exchanges and other fees	66,283	106,872
Brokers' registration fees	8,658	16,740
Fee from Non Banking Finance Companies	255,722	243,330
	1,450,123	1,609,270
17. OTHER INCOME		
Income on bank deposits	13,196	9,460
Income on investments	440,388	399,815
Gain on sale of property and equipment	2,599	1,230
Miscellaneous	49	1,340
	456,232	411,845
18. SALARIES, ALLOWANCES AND OTHER BENEFITS		
Salaries	319,902	300,888
House rent allowance	191,269	179,625
Medical allowance	41,914	41,463
Conveyance allowance	11,130	10,643
Utilities	31,854	29,897
Other allowance	171,769	215,109
Pension	24,019	44,370
Provident fund contribution	25,241	26,825
Gratuity	40,666	49,560
Leave encashment	15,496	8,398
	873,260	906,778
19. OPERATING EXPENSES		
Repairs and maintenance	54,810	44,961
Travelling and conveyance	58,909	41,800
Telephone, postage and courier	28,339	24,426
Utilities	15,918	14,377
Rent and rates	87,819	81,153
Printing and stationery	14,240	10,943
Legal and professional charges	27,852	18,448
Fees and subscription	4,652	4,462
Human resource development	19,812	11,858
Seminars and conference	5,126	861
Insurance	8,055	6,983
Advertisement	12,325	3,525
Entertainment	1,086	440
Audit fee	280	259
Provision for imputed interest on long term loans to employees	6,732	14,619
Levies and charges	42,865	49,410
Others	12,688	4,208
	401,508	332,733

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20. TAXATION

	2012	2011
	(Rupees in thousand)	
Current tax		
- current year	191,071	238,636
- prior years	18,207	-
	209,278	238,636
Deferred tax		
- current year	(19,594)	2,829
- prior years	(2,499)	15,623
	(21,093)	18,452
	188,185	255,088

20.1 The relationship between the tax expense and surplus of income over expenditure is as follows:

	2012	2011
	(Rupees in thousand)	
Surplus of income over expenditure	492,791	669,901
Tax at applicable tax rate of 35 percent (2011: 35 percent)	172,477	234,465
Effect of prior years charge	15,708	15,623
Provision for tax contingencies	-	5,000
Tax expense for the year	188,185	255,088

21. TAX STATUS

The Commission has filed the tax return for the tax year 2003 to 2007 in pursuance of the order of the honorable high court, by claiming exemption on total income in terms of section 49 of the Income Tax Ordinance, 2001 (the Ordinance). However the Additional Commissioner, Audit Division (ACIT) amended the assessments under section 122 (5A) of the Ordinance by rejecting the claim of exemption and thereby creating a demand aggregating to Rs. 892.601 million. On appeals filed by the Commission, the Appellate Tribunal Inland Revenue (ATIR) had upheld the annulment of order of ACIT for tax year 2003 and maintained the order for the years 2004 to 2007. The Commission has filed the reference application before the Honorable Islamabad High Court which is pending adjudication. However the Commission has made payment of total outstanding demand under protest pursuant to the demands made by the Ministry of Finance in prior year.

The Officer Inland Revenue (OIR) charged default surcharge aggregating to Rs. 111.900 million for delay in payment of the demands for the tax years 2004 to 2007. On appeals filed by the Commission, the Commissioner Inland Revenue CIR(A) has upheld the charge of additional tax and directed the OIR to recompute the amount of default surcharge after taking cognizance of the tax refunds available with the Commission for the tax years 2008 and 2009. The Commission has challenged the order of CIR(A) with the ATIR which is pending adjudication. However, the Commission has made payment of the total amount of default surcharge under protest.

The Commission has filed the return for the tax years 2008 to 2011, which stood assessed in terms of Section 120 of the Ordinance. The Commissioner Inland Revenue (CIR) selected the Commission for audit relating to the tax year 2010. However, the Commission has challenged its selection for audit by CIR in the Honorable Islamabad High Court. The stay was granted by the Court.

-16-

22. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

22.1 Interest rate risk exposure

The Commission's exposure to interest rate risk on its financial assets and liabilities are summarized as follows:

	Interest bearing			Non interest bearing	Total
	Maturing within one year	Due after one year up to two years	Due after two years		
	Rupees in thousand				
June 30, 2012					
Financial assets					
Long term investments	188,370	300,000	-	-	488,370
Loans and advances	-	-	-	33,541	33,541
Advances and other receivables	-	-	-	248,471	248,471
Short term investments	2,880,904	-	-	-	2,880,904
Cash and bank balances	199,262	-	-	340	199,602
Total	3,268,536	300,000	-	282,352	3,850,888
Financial liabilities					
Accrued and other liabilities	-	-	-	395,813	395,813
Total	-	-	-	395,813	395,813
Excess /(shortfall) of financial assets over financial liabilities	3,268,536	300,000	-	(113,461)	3,455,075
June 30, 2011					
Financial assets					
Long term investments	50,671	199,190	300,000	10,000	559,861
Long term loans to employees	-	-	-	26,181	26,181
Advances and other receivables	-	-	-	468,902	468,902
Short term investments	2,471,697	-	-	-	2,471,697
Cash and bank balances	59,863	-	-	238	60,101
Total	2,582,231	199,190	300,000	505,321	3,586,742
Financial liabilities					
Accrued and other liabilities	-	-	-	389,165	389,165
Total	-	-	-	389,165	389,165
Excess of financial assets over financial liabilities	2,582,231	199,190	300,000	116,156	3,197,577

22.2 Credit risk

The Commission believes that it is not exposed to major concentration of credit risk.

22.3 Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. The Commission believes that it is not materially exposed to foreign exchange risk.

22.4 Fair value of financial assets

The carrying amount of all financial instruments reflected in the financial statements approximate their fair value except for long-term investments as stated in note 6.

23. FUND MANAGEMENT

Policy Board monitors the Commission's performance along with funds required for sustainable operations of the Commission. There were no changes to the Commission's approach to the fund management during the year. The Commission is not subject to externally imposed fund requirements.

24. RELATED PARTY TRANSACTIONS

The Commission deals with several state-controlled entities, directly or indirectly controlled by the Government of Pakistan through its Government authorities, agencies, affiliates and other organizations. Transactions with these state-controlled entities are not very significant.

In addition to above, Pakistan Institute of Capital Markets, Pakistan Institute of Corporate Governance, key management personnel and employee benefit plans are related parties of the Commission.

Transactions with key management personnel have been carried out in normal course of business in accordance with their employment terms.

Transactions with related parties during the year and balances outstanding at the year end are as follows:

	2012	2011
	(Rupees in thousand)	
Transactions during the year		
Contributions made to employees benefit plans	152,442	227,395
Investment in shares of the Pakistan Institute of Capital Markets	18,000	-
Contribution to Pakistan Institute of Corporate Governance	100	100
Balances outstanding at the year end		
Due (from)/ to employees benefit plans	(1,592)	62,012
Investments in Pakistan Institute of Capital Markets - at cost	28,000	10,000

25. GENERAL

The figures have been rounded to the nearest thousand Rupees.

26. AUTHORIZATION FOR ISSUE

These financial statements have been authorized for issue by the Commission on 13 SEP 2012

CHAIRMAN

COMMISSIONER

Mr. Irfan Qadir, Attonery Genral of Pakistan, Mr. Justice Khilji Arif Hussain, Mr. Muhammad Ali, the SECP Chairman, Mr. Justice (R) Saiduzzaman Siddiqui, President, KCDR and Dr. Zafar Sherwani, Director, KCDR, after the signing of Memorandum of Understanding between the SECP and the Karachi Centre for Dispute Resolution.

The Seagulls in a seamlessly choreographed manner

The Securities and Exchange Commission of Pakistan firmly believes in transparency. Audits ensure the ficsal accuracy and responsibility of organizations. In fact, for organizations they are the most important tool to achieve transparency.

Corporate Sector

Table 1 - Approvals and Permissions

Sr. No	Relevant Section of the Ordinance	Nature of Approval/Permission Sought	Cases Disposed (Number)
1	Section 21	Amendment to memorandum and articles of association	225
2	Section 37	Availability of name	12,914
3	Section 39	Change of name	189
4	Section 42	Grant of license to non-profit associations	41
5	Section 44	Conversion of public companies into private companies	16
6	Section 84	Issue of shares at discount	2
7	Section 86	Further issue of capital	1,529
8	Proviso of Sub-section (1) of Section 86	Issue of shares other than right	3
9	Section 90	Issue of shares having different kinds and/or classes of share capital	3
10	Sections 121,129, 131, 132	Registration, modification, satisfaction of charge and condoning of delay in submission of particulars of charge	4,249
11	Section 146	Commencement of business certificate	14
12	Sections 158	Extension in period for holding of AGMs by unlisted public and private companies	126
13	Section 159(7)	Holding of an EOGM at a shorter notice	12
14	Section170	Calling of overdue meetings	27
15	Section 195	Grant of loans to directors of unlisted public companies	10
16	Section 231	Inspection of books of account and other books and papers	1
17	Section 233	Preparation of first account exceeding 12 months	9
18	Section 258	Approval of appointment of cost auditor	66
19	Section 439(9)	Restoration of name of company to the register of companies	12
20	Section 466(6)	Issue of certified copies of documents	41,910
21	Regulation 18 of the Companies (Registration Offices) Regulations, 2003.	Inspection of records maintained with CROs	8,494
22	Rule 5 of the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000		1
23	Rule 9 of Single-Member Companies Rules 2003	Conversion of private into single-member company	12
24		Miscellaneous (minor activities, providing information to different agencies and shareholders, etc.)	3,525
		Total	**73,390**

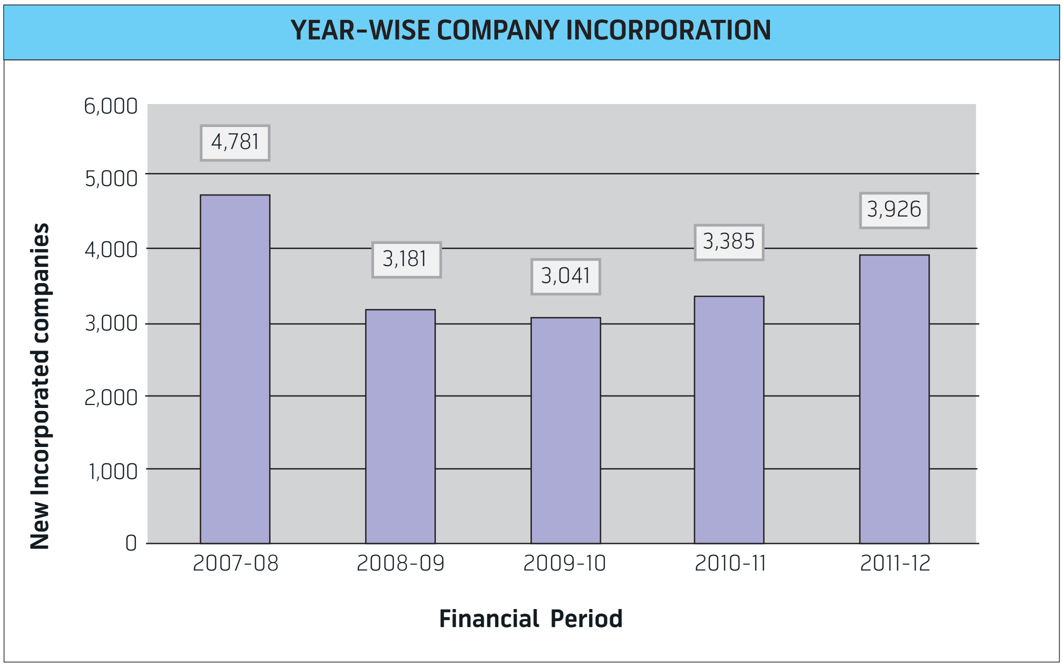
Table 2 - Complaints Dealt

Sr. No.	Nature of Complaint	Received	Disposed	Pending
1	Non-payment of dividend	1	1	0
2	Mismanagement	0	0	0
3	Non-receipt of balance sheets	0	0	0
4	Non-receipt of notices	4	4	0
5	Non-registration of transfer of shares	0	0	0
6	Non-issue of share certificates	0	0	0
7	Improper holding of meetings	1	1	0
8	Non-holding of AGM	0	0	0
9	Non-receipt of dividend warrant	1	1	0
10	Misappropriation	6	6	0
11	Misapplication of funds	1	0	1
12	Improper election of directors	0	0	0
13	Miscellaneous	36	36	0
	Total	**50**	**49**	**1**

Table 3 - Disposal of Appeals

Sr. No.	Relevant Section of the Ordinance	Nature of Appeal	Received	Disposed	Pending
1	Section 37	Appeal against refusal of company name	34	32	2
2	Section 78-A	Appeal against refusal for regist-ration of transfer	1	1	0
3	Section 468	Appeal against refusal to accept any document	3	2	1
4	Section 477	Appeal and revision application against order passed under section 476 (1)	6	6	0
5	Section 484	Revision and review of any order passed other than Section 476	3	3	0
		Total	**47**	**44**	**3**

Graph 1



Graph 2

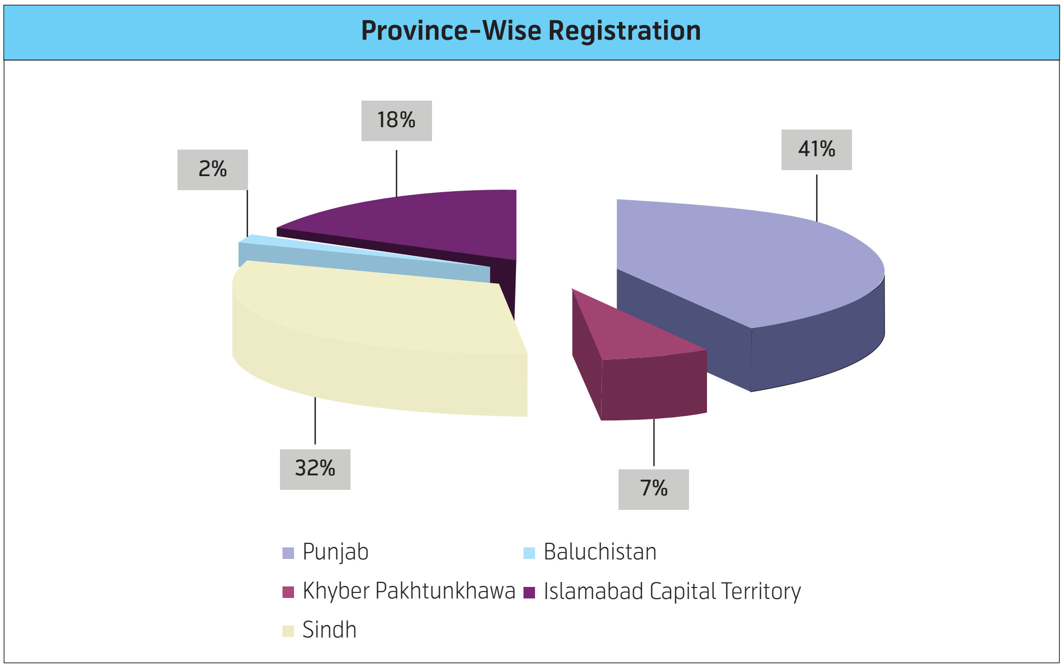


Table 4 - Number of Companies by Type (Registered under the Companies Ordinance, 1984)

Type of Companies	Newly Incorporated Companies for the Financial Year Ending on June 30, 2012	Total Companies as of June 30, 2012
Companies limited by shares		
Public listed (only those which are registered under the Ordinance)		602
Public unlisted	38	2,237
Private	3,573	56,335
SMCs	238	1,438
Total companies limited by shares	3,849	60,612
Companies limited by guarantee u/s 43	1	75
Non-profit associations u/s 42	41	533
Trade organizations	4	222
Foreign companies	31	807
Unlimited companies	0	3
Total companies	**3,926**	**62,252**

Table 5 - Capitalization Breakdown as of June 30, 2012

	Listed Companies	Unlisted Public Companies	Private Companies	SMCs	Total	Percentage
Paid-up capital up to Rs 100,000	0	414	22,318	891	23,623	38.97%
Paid-up capital from Rs 100,001 to 500,000.	0	313	8,591	217	9,121	15.05%
Paid-up capital from Rs 500,001 to 1,000,000	0	91	5,757	142	5,990	9.88%
Paid-up capital from Rs 1,000,001 to 10,000,000	22	329	14,995	133	15,479	25.54%
Paid-up capital from Rs 10,000,001 to 100,000,000	193	619	3,923	51	4,786	7.90%
Paid-up capital from Rs 100,000,001 to 500,000,000	219	307	634	3	1,163	1.92%
Paid-up capital from Rs 500,000,001 to 1,000,000,000	60	72	62	1	195	0.32%
Paid-up capital from Rs 1,000,000,001 to above	108	91	56	0	255	0.42%
	602	**2,236**	**56,336**	**1,438**	**60,612**	**100.00%**

Table 6 - Sector Wise Distribution (Limited By Shares)

Sectors	Total Companies as on June 30, 2012	Newly Incorporated Companies for the Financial Year Ending on June 30, 2012
Auto and allied	727	44
Broadcasting and telecasting	435	60
Cable and electrical goods	685	39
Carpets and rugs	84	2
Cement	104	0
Chemical	1,592	66
Pharmaceuticals	1,234	96
Communications	2,527	170
Construction	2,947	225
Corporate agricultural farming	1,018	85
Education	831	98
Engineering	1,910	83
Finance and banking	1,060	18
Food and beverages	2,410	161
Footwear	77	11
Fuel and energy	1,175	76
Ginning	346	3
Glass and ceramics	308	5
Healthcare	510	52
Information technology	2,563	260
Insurance	275	10
Jute	21	0
Leather and tanneries	412	3
Lodging	468	21
Mining and quarrying	534	51
Paper and board	1,134	62
Power generation	674	74
Real estate development	1,226	42
Services	7,051	472
Sport goods	194	17
Steel and allied	493	32
Sugar and allied	175	7
Synthetic and rayon	200	8
Textile	4,790	109
Tobacco	93	2
Tourism	6,173	547
Trading	7,279	501
Transport	1,310	100

(Contd.)

Table 6 - Sector Wise Distribution (Limited by Shares) (Contd.)

Sectors	Total Companies as on June 30, 2012	Newly Incorporated Companies for the Financial Year Ending on June 30, 2012
Vanaspati and allied	432	12
Wood and wood products	227	8
Miscellaneous	6,548	294
Total	**62,252**	**3,926**

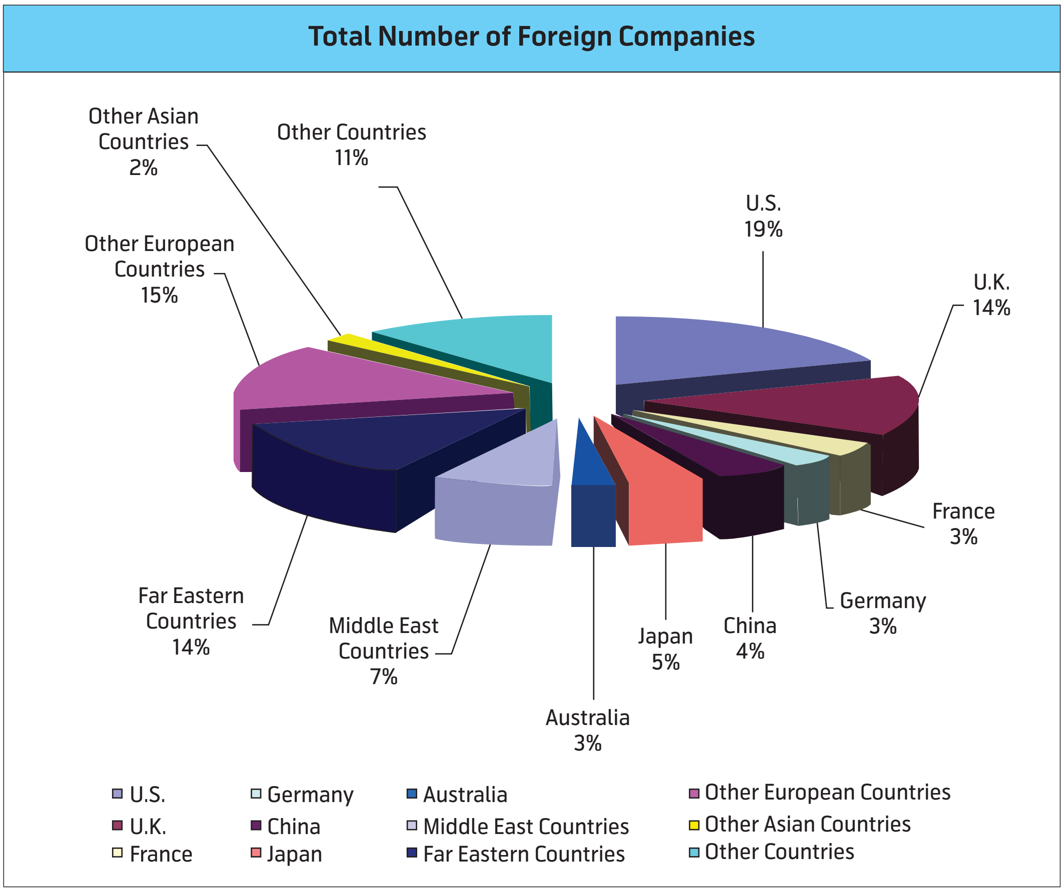
Table 7 - Non-profit Associations

Area of Activity	Newly Incorporated Associations for the Year Ending on June 30, 2012	Number of Associations as on June 30, 2012
Commerce	7	228
Art	1	10
Science	1	13
Religion	1	11
Sports	2	30
Social services	14	214
Charity	3	65
Others	17	259
Total	**46**	**830**

Table 8 - Foreign Companies

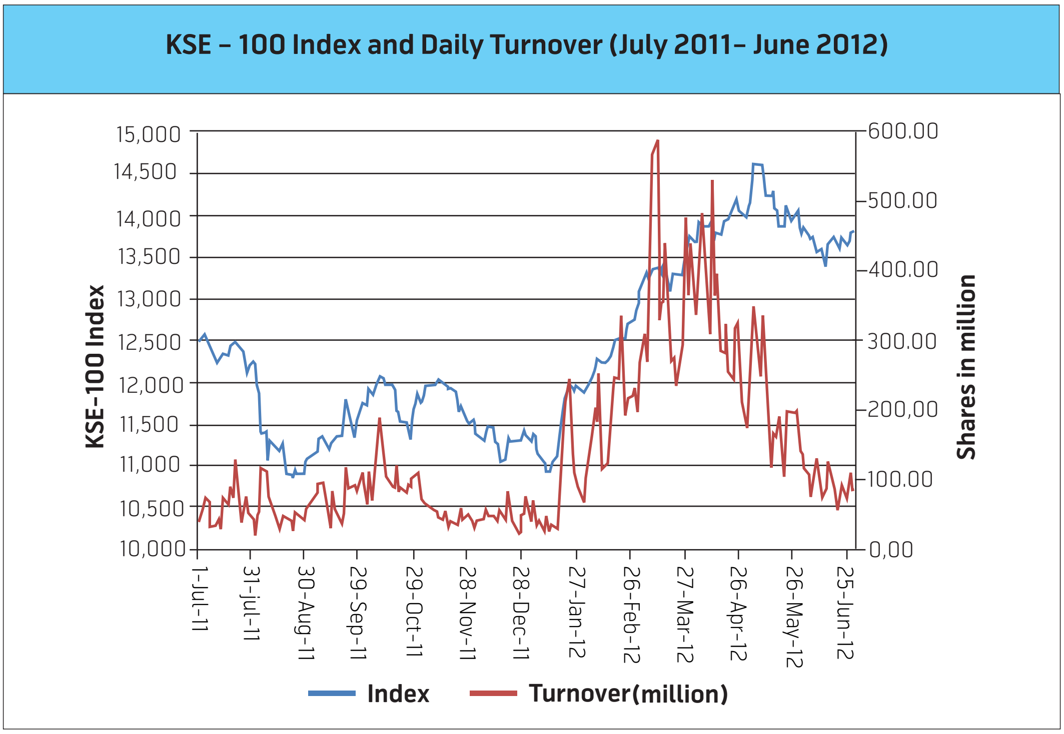
Country	Newly Incorporated Companies for the Year Ending on June 30, 2012	Number of Companies as on June 30, 2012
U.S.	4	154
U.K.	4	115
France	1	25
Germany	0	22
China	2	35
Japan	0	36
Australia	0	20
Middle Eastern countries	4	57
Far Eastern countries	5	112
Other European countries	8	124
Other Asian countries	1	15
Other countries	2	92
Total	**31**	**807**

Graph 3

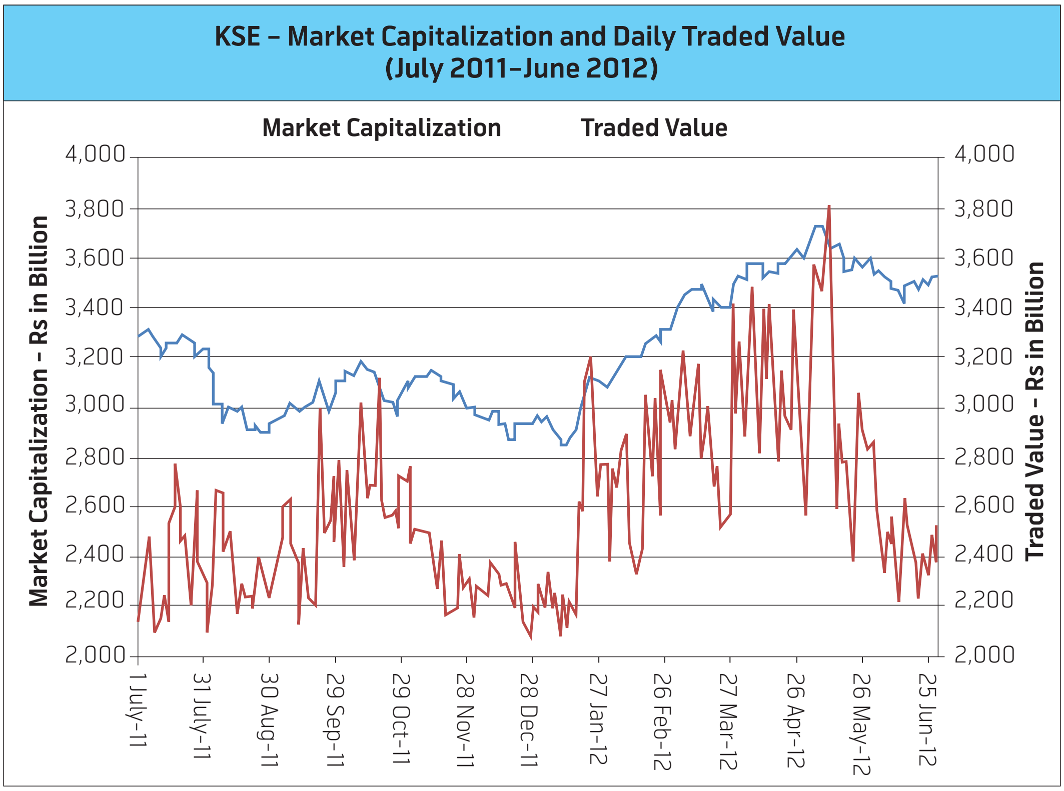


Securities Market

Graph 4



Graph 5



Issue of Capital

Table 9 - Equity *(Rs in million where applicable)*

Sr. No	Name of Company	Sector	Subscrip-tion Date	Total Paid-up Capital	Already Paid-up Capital	Offered Capital	Premium Per share (Rs)	Offered Capital (Including Premium, if any)	Subscrip-tion Received (Including Premium, if any)	Times Subscribed
1	Engro Foods Limited (offer for sale)	Food producers	5-7 July 2011	7,480.00	7,480.00	270.00	15.00	675.00	640.41	0.95
2	TPL Direct Insurance Limited	Non-life insurance	1-4 Aug 2011	460.00	310.00	50.00	0.00	50.00	51.63	1.03
3	Next Capital Limited	Financial services	20-21 March 2012	200.00	100.00	25.00	0.00	25.00	4.79	0.19
4	TPL Trakker Limited	Miscella-neous	5-6 Jun 2012	2,172.49	1,872.49	100.00	0.00	100.00	115.10	1.15
	Total			**10,312.49**	**9,762.49**	**445.00**	**15.00**	**850.00**	**811.93**	

Table 10 - Book Building Portion *(Rs in million where applicable)*

Sr. No	Name of company	Sector	Bidding date	Total paid-up capital	Already paid-up capital	Floor price (Rs)	Number of shares offered	Offered capital (at floor price)	Bids Received				Strike price (Rs)	Over/ under subsc-ribed %
									Min bid (Rs)	Max bid (Rs)	No. of bids	No. of shares bid for		
1	TPL Direct Insurance Limited	Non-life insurance	21-22 June 2011	460.00	310.00	10.0	10,000,000	10.0	10.0	11.0	28	10,005,000	10.0	1.00
2	Next Capital Limited	Financial services	21-22 Feb 2012	200.00	100.00	10.0	7,500,000	10.0	10.0	10.0	17	7,750,000	10.0	1.03
3	TPL Trakker Limited	Miscellan-eous	2-3 May 2012	2,172.49	1,872.49	10.0	200.00	10.0	10.0	10.0	15	20,000,000	10.0	1.00

Graph 6

Number of Equity Issues to Public During the FYs 1998-2012

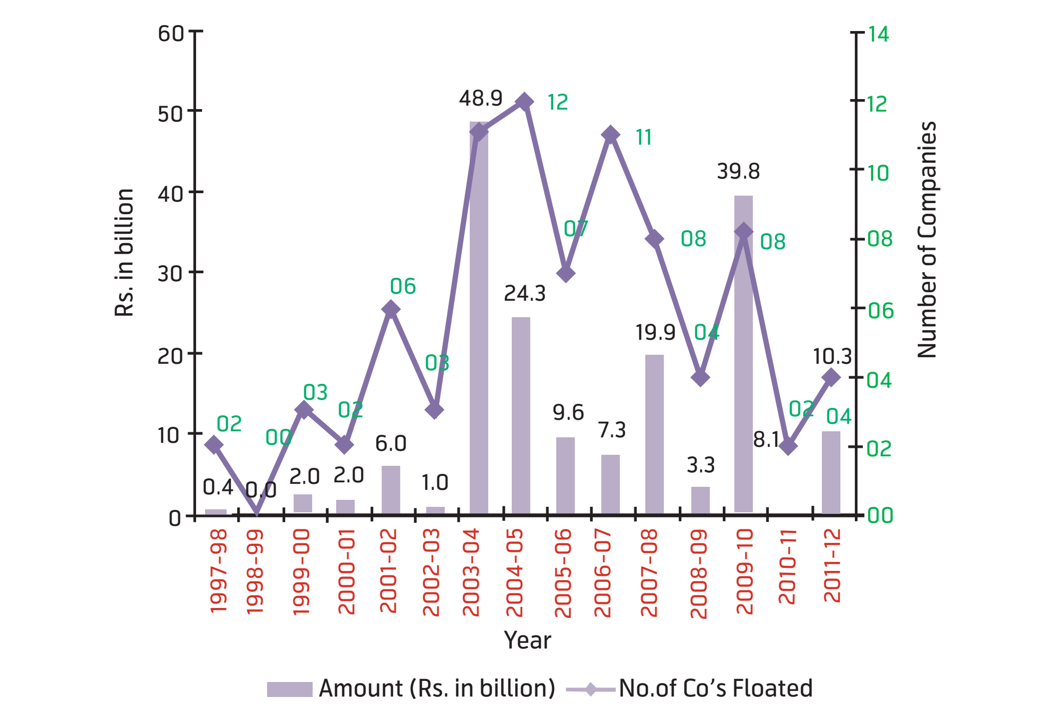


Table 11 - TFCs

(Rs in millions where applicable)

Sr. No	Name of Company	Subscrip-tion Date	Total Amount Offered			Total Amount Offered			Green Shoe Option	Amount Retained
			Pre-IPO	IPO	Total	Pre-IPO	IPO	Total		
1	Engro Corporation Limited (Engro Rupiya Certificate-Second Issue)	June 1, 2011- August 31, 2011	0.00	2,000.00	2,000.00	-	2,754.80	2,754.80	Up to 1,000.00	2,754.80
2	Summit Bank Limited	October 27, 2011	1,125.00	375.00	1,500.00	1,125.00	0.85	1,125.85	N.A.	1,500.00
3	KESC Limited	May 25, 2012-August 24, 2012	0.00	1,000.00	1,000.00	0.00	2000.00	2000.00	Up to 1,000.00	2000.00
Total			**1,125.00**	**3,375.00**	**4,500.00**	**0.00**	**4,755.65**	**5,880.65**	**811.93**	**6,254.80**

Graph 7

Number of TFCs Floated During the FYs 1995-2012

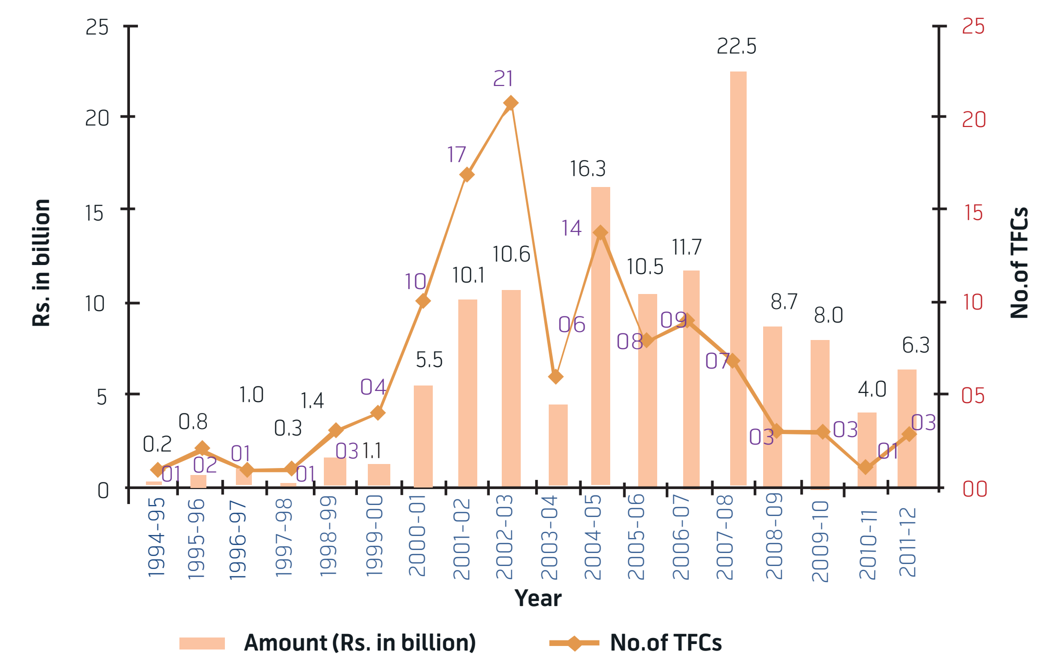


Table 12 - Listing of Privately Placed Term Finance Certificate (PPTFCs) and Commercial Papers (CPs) on OTC Market of KSE During FY 2012

(Rs in millions where applicable)

Sr. No.	Name of Company	Type of Securities	Issue Date	Date of Listing	Issue Size
1	Orix Leasing Pakistan Limited	CPs	June 30, 2011	October 25, 2011	1,000.00
2	Pakistan Mobile Telecommunications Limited.	PPTFCs	April 18, 2012	July 4, 2012	2,000.00
	Total				**3,000.00**

Graph 8

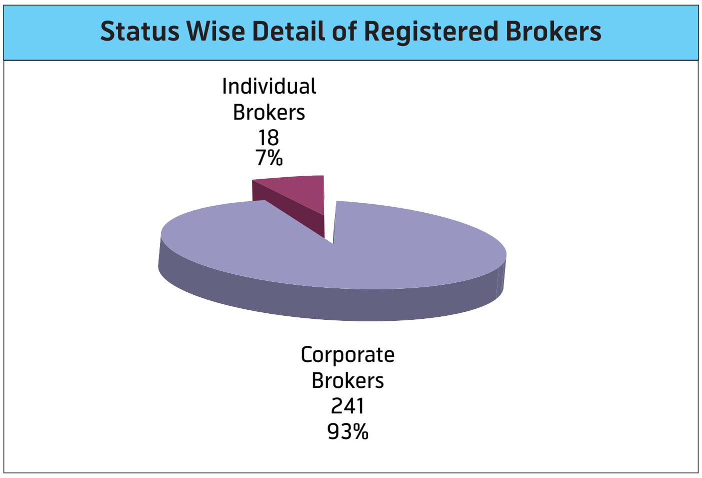


Table 13 - Certificates Granted to Brokers

Details	Corporate Brokers	Individual Brokers	Total Brokers
As on June 30, 2011	256	20	276
Cancel/expire	(18)	(3)	(21)
Addition	3	1	4
As of June 30, 2012	241	18	259

Table 14 - Certificates Granted to Agents

Details	Total Agents
As on June 30, 2011	422
Cancel/expire	(138)
Addition	30
As on June 30, 2012	310

Table 15 - Complaints Received and Processed Against Registered Brokers

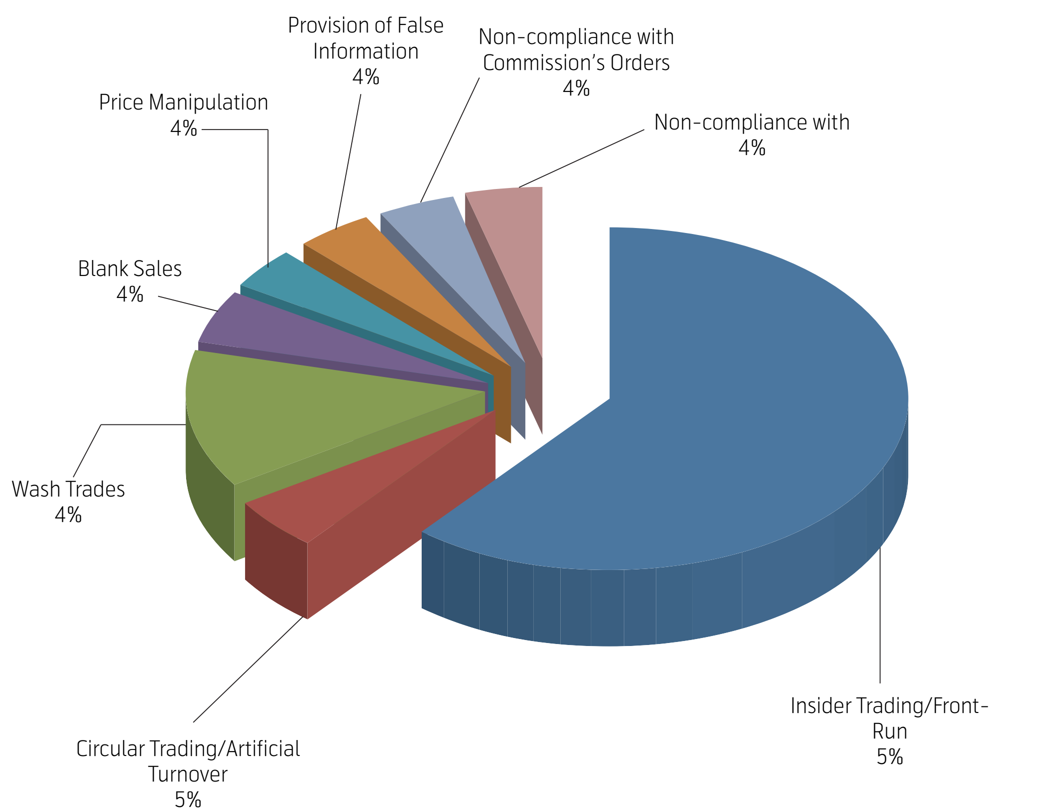
	KSE	LSE	ISE	Total
Number of complaints/claims brought forward from previous financial year	1,367	107	8	1,482
New complaints received against the brokers between July 1, 2011 and June 30, 2012	40	17	6	63
New claims received against the expelled/suspended members between July 1, 2011 and June 30, 2012	46	135	8	189
Total Complaints/Claims Dealt by BR&ICW between July 1, 2011 and June 30, 2012 '(A)'	**1,453**	**259**	**22**	**1,734**
Complaints against brokers disposed of between July 1, 2011 and June 30, 2012	51	31	5	87
Claims against expelled/suspended members settled during July 1, 2011 to June 30, 2012	1,153	13	5	1,171
Total Complaints/Claims Against Brokers and Expelled/ Suspended Member Disposed of/Settled between July 1, 2011 and June 30, 2012 '(B)'	**1,204**	**44**	**10**	**1,258**
Total Complaints/Claims Dealt by BR&ICW between July 1, 2011 and June 30, 2012 '(A)'	**249**	**215**	**12**	**476**

Table 16 - Classification of Outstanding Complaints

	KSE	LSE	ISE	Total
Complaints against suspended/expelled brokerage firms	216	198	11	425
Complaint pending with the stock exchange for arbitration	-	3	-	3
Pending with members	8	2	1	11
Pending with complainant	11	4	-	15
Pending with Commission	7	4	-	11
Court cases	6	4	-	10
Illegal brokerage house	1	-	-	1
Total Outstanding Complaints	**249**	**215**	**12**	**476**

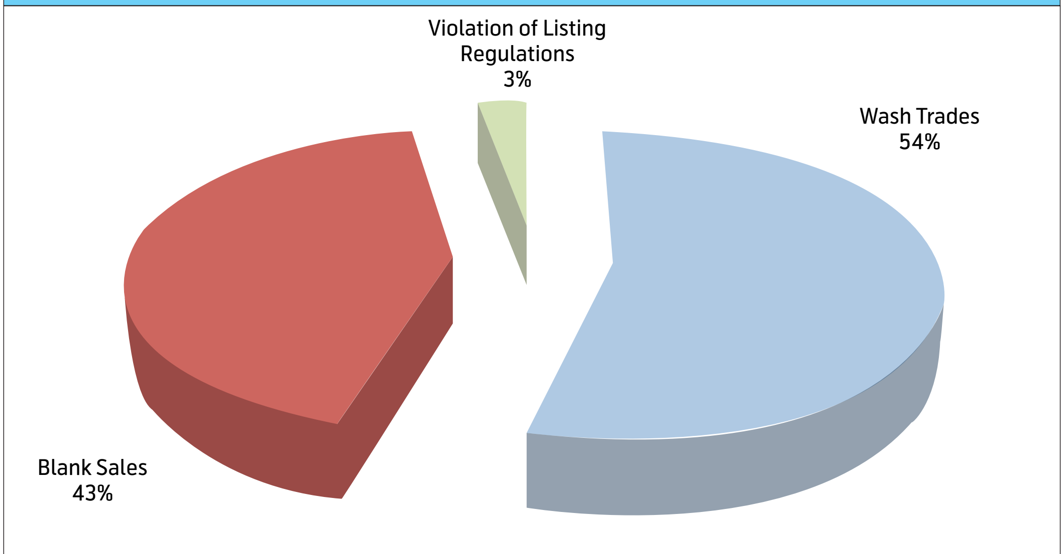
Graph 9

Orders issued by Market Surveillance Wing

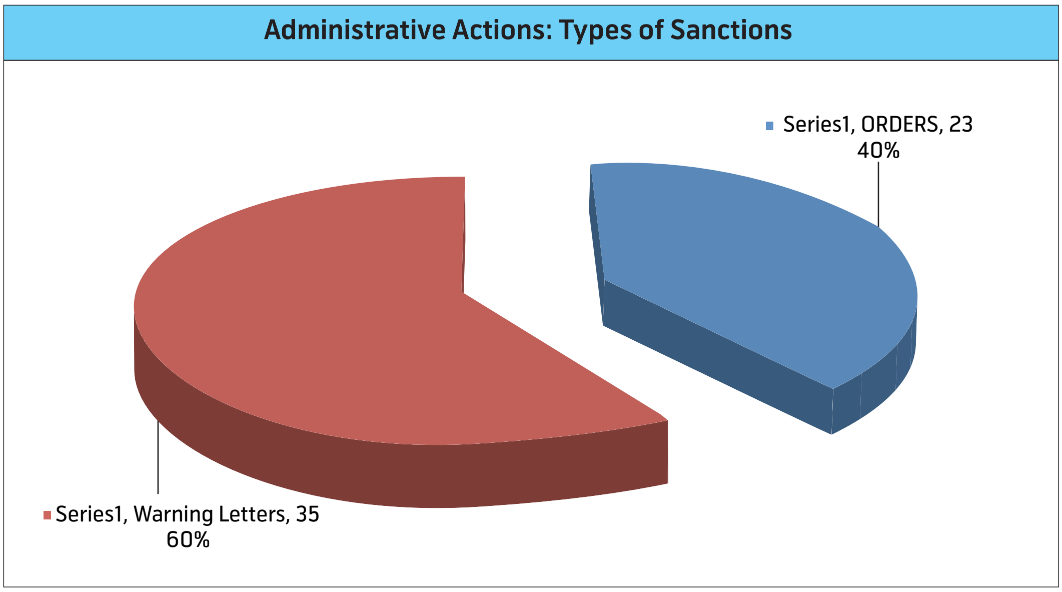


Graph 10

Warning Letter Issued by Market Surveillance Wing



Graph 11



Specialized Companies

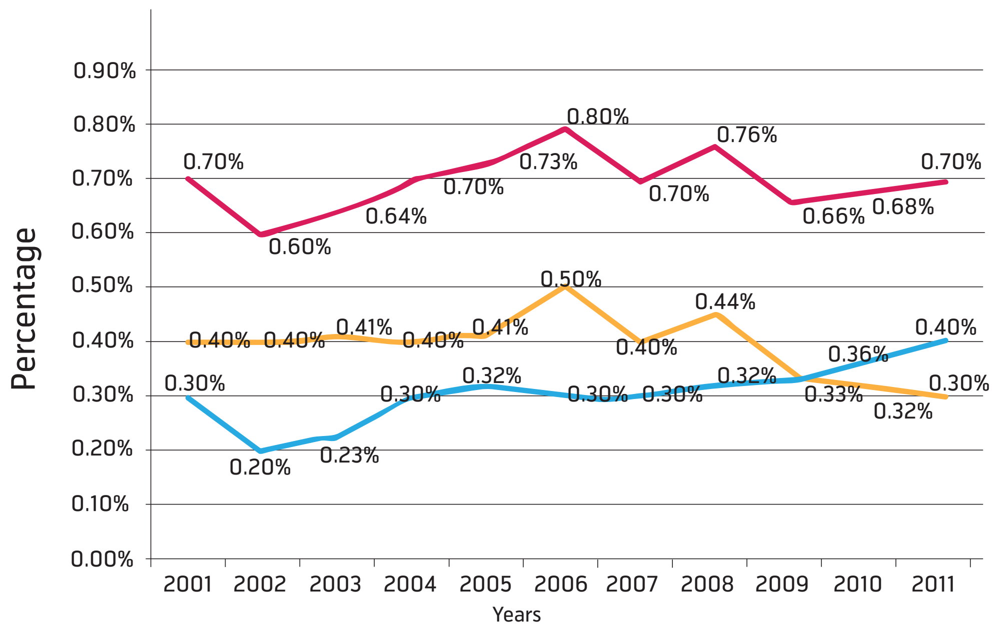
Table 17 - Detailed Financials of Modarabas for the Year Ending June 30, 2012 (Unaudited)

Sr. No.	Name of Modaraba	(Rs. in million)				Dividend for 2010-11
		Total Assets	Paid up	Equity	Borrowing (TFCs, & COMs)	
1	Allied Rental Modaraba	2,706	750	1,673	-	30% (Cash) 20% (Right) 10% (Bonus)
2	B.F. Modaraba	122	75	105	-	5.00%
3	B.R.R. Guardian Modaraba	3,034	780	713	1,757	1.80%
4	Crescent Standard Modaraba	158	200	123	22	1.50%
5	Elite Capital Modaraba	187	113	130	-	5.50%
6	Equity Modaraba	602	524	600	-	-
7	First Al-Noor Modaraba	360	210	332	-	8.00%
8	First Fidelity Leasing Modaraba	396	264	357	-	5.00%
9	First Habib Bank Modaraba	871	397	716	-	14.75%
10	First Ibl Modaraba	269	202	217	16	-
11	First Imrooz Modaraba	348	30	120	43	65.00%
12	First Paramount Modaraba	271	59	155	79	21% (Cash) 30% (Right)
13	First Punjab Modaraba	1,914	340	159	1,474	-
14	First Treet Manufacturing Modaraba	1,683	800	1,044	-	6.50%
15	Habib Modaraba	4,564	1,008	2,261	969	20.00%
16	KASB Modaraba	1,640	283	330	1,193	6.50%
17	Modaraba Al-Mali	235	184	184	-	-
18	First National Bank Modaraba	1,973	250	339	1,293	10.00%
19	First Pak Modaraba	79	125	76	-	1.20%
20	First Prudential Modaraba	578	872	508	-	3.00%
21	Standard Chartered Modaraba	6,145	454	960	4,304	17.50%
22	Trust Modaraba	398	298	281	-	-
23	First UDL Modaraba	722	264	514	-	15.00%
24	Unicap Modaraba	5	136	(0)	-	-
25	First Tri-Star Modaraba	252	212	207	-	-
26	First Constellation Modaraba	72	65	68	-	-
	Total	**29,583**	**8,896**	**12,171**	**11,151**	-

Insurance

Graph 12

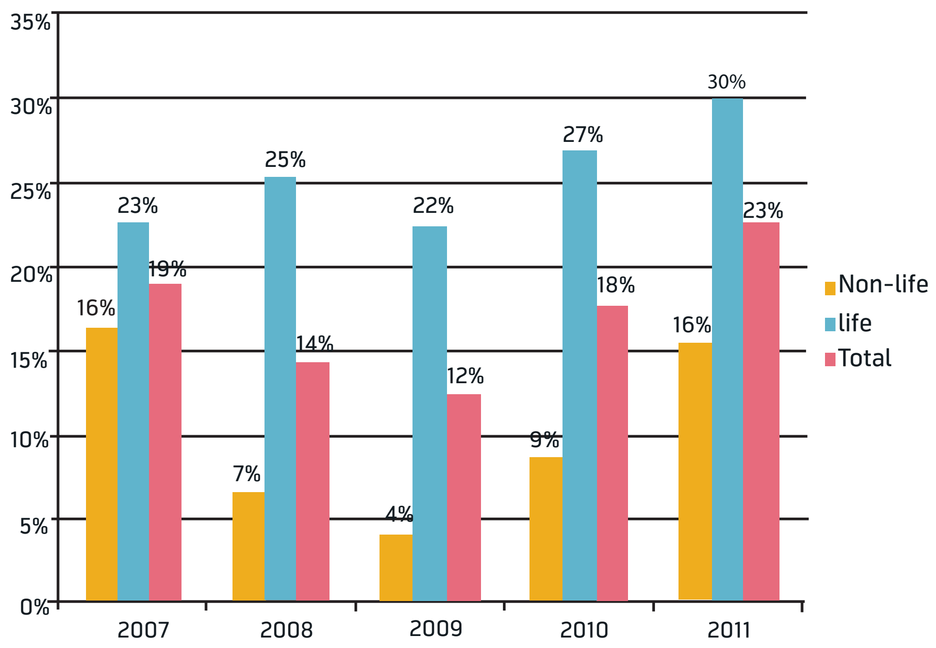
Insurance Penetration in Pakistan



Source: Swiss Re, Sigma Various Volumes

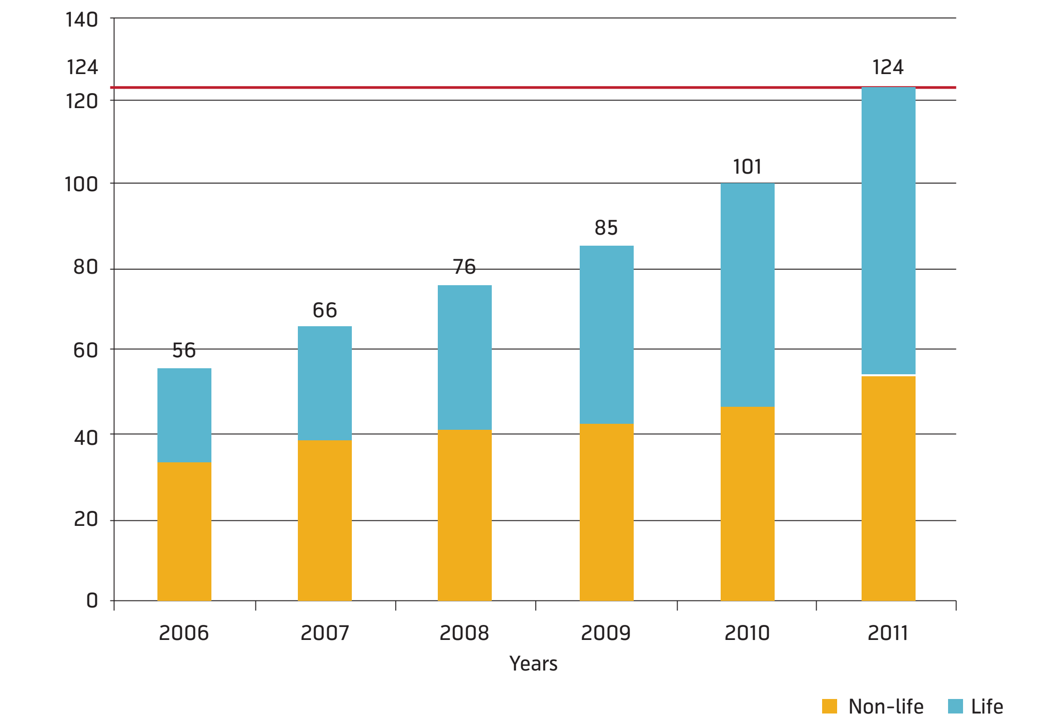
Graph 13

Growth Trend of the Insurance Industry in Pakistan



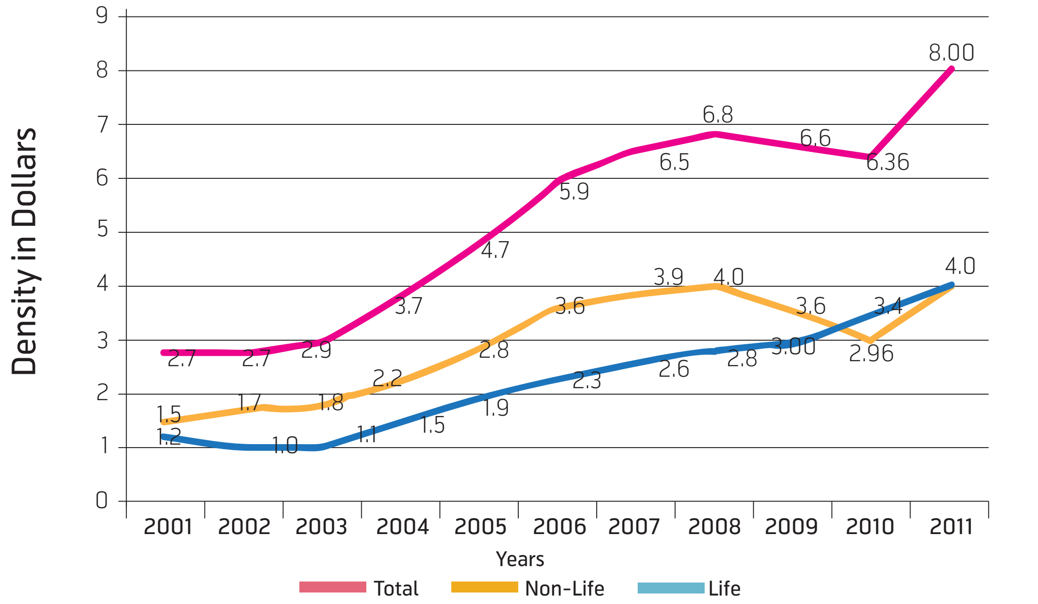
Graph 14

Total Gross Written Premium Of The Insurance Industry In Pakistan



Graph 15

Insurance Density in Pakistan



Source: Swiss Re, Sigma Various Volumes

A Peacock reveals all its beauty

In photography, there is a reality so subtle that it becomes more real than reality.— Alfred Stieglitz

Photo Gallery

The SECP chairman, Mr. Muhammad Ali, shaking hands with the President, His Excellency Asif Ali Zardari after the signing of the Demutualization Act.

Mr. Muhammad Ali, the SECP Chairman, presenting a memento to the President, His Excellency Mr. Asif Ali Zardari on the occasion of the demutualization ceremony on December 19, 2012.

The SECP Chairman with a group of senior economic journalists after the conclusion of Journalists' Training Workshop in Islamabad.

Mr. Ebrahim Sidat, Chairman, Pakistan Institute of Corporate Governance Task Force, and Mr. Yaseen Anwar, Governor, State Bank of Pakistan; Dr. Abdul Hafeez Shaikh, Federal Minister for Finance, Muhammad Ali, SECP chairman, and Mr. Fawad hashmi, CEO, Pakistan Institute of Corporate Governance, on the occasion of launching the revised Code of Corporate Governance in Karachi on April 10, 2012.

Mr. Muhammad Ali, the SECP chairman, at the "World Economic Forum on India 2012" at Gurgaon, India.

Mr. Imtiaz Haider, the SECP Commissioner, SMD (first from right), Mr. Muhammad Ali, the SECP chairman, Mr. Munir Kamal, KSE Chairman, and Mr. Haroon Askari, DMD, KSE, at the IPO summit in Karachi on July 14, 2012.

Prof Dr Vedat Akgiray, Chairman, Market Board of Turkey, shaking hands with Mr. Muhammad Ali, the SECP chairman, after signing a memorandum of understanding in Istanbul on September 15, 2011.

Mr. Muhammad Ali, the SECP chairman, is presenting a shield to Mr. David Wright, the secretary general of the International Organization of Securities' Commission, on the occasion of the 37th annual conference, which was held in Beijing in May 2012. Mr Imtiaz Haider, Commissioner, SMD, is in the middle.

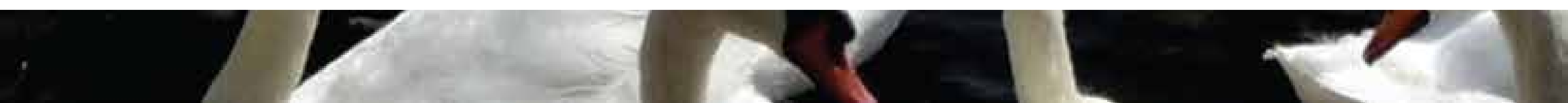
Mr. Mohammad Asif Arif, Commissioner, Insurance, (fifth from left), Mr. Javed Jabbar, Vice Chairman IUCN-Pakistan, Dr. Zafar Iqbal Qadir, Chairman National Disaster Management Authority, with other delegates at the International Insurance Conference on Catastrophe Events in April 2012 in Karachi.

(From right to left): Mr. Muhammad Asif Arif, Commissioner (Insurance), Mr. Muhammad Ali, Chairman, SECP, Mr. Irfan Siddiqui, President & CEO (Meezan Bank Ltd.), Prof. S. B. Hassan, President and Chief Editor (Investment & Marketing), Mr. Majid Dawood, CEO (Yasaar Limited) and Mr. Rafique Halani, Head of Operations SALAMA, Islamic Arab Insurance Company, at the launching ceremony of Takaful Rule, 2012.

The Pakistani Capital Market delegation with the Mutual Fund Association of India in Mumbai in December 2011.

Mr. Muhammad Ali, the SECP Chairman, Speaking at the launch of National Investor Awareness Programme in Karachi in July 2012.

Swans floating in a close formation



Communication is two-sided —vital and profound communication makes demands also on those who are to receive it... demands in the sense of concentration, of genuine effort to receive what is being communicated.
—Roger Sessions

Management Directory

Management Directory

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Mr. Nabi Bux Khoro	Assistant Registrar, CRO Sukkar	nabi.khoro@secp.gov.pk

How to Contact us

How to lodge complaints

In order to create awareness within the stakeholders about the availability of vigilance mechanism and how the stakeholders can make best use of the facility, the SECP has placed the instructions on filing of a complaint on its website. The information and forms have also been made available at the CROs and the stock exchanges. Investors, entities and the public can forward complaints online through the links available at the SECP website. http://www.secp.gov.pk/ComplaintForm1.asp

There is a reporting mechanism in place whereby a track is kept of the status of complaints and queries received.

How to ask other questions

Investors, entities and general public can forward any queries or complaints on the following email addresses:

General Information:	enquiries@secp.gov.pk
Complaints:	complaints@secp.gov.pk

Our Offices

Head Office NIC Building, 63 Jinnah Avenue, Islamabad Tel: 051-9207091-4 Fax: 051-9204915	
Karachi Fourth Floor, State Life Building No 2, Wallace Road, Off I.I. Chundrigar Road Tel: 021-99238269 Fax: 021-99213278 email: crokarachi@secp.gov.pk	**Islamabad** State Life Building 7, Blue Area Tel: 051-9206219 Fax: 051-9206893 email: croislamabad@secp.gov.pk
Multan 63-A Nawa-i-Waqat Building Second Floor, Abdali Road Tel: 061-9200920 Fax: 061-9200530 email: cromultan@secp.gov.pk	**Lahore** Third & Fourth Floor, Associated House 7 Egerton Road Tel: 042-99204962-6 Fax: 042-99202044 email: crolahore@secp.gov.pk
Peshawar First Floor, State Life Building The Mall Tel: 091-9213178 Fax: 091-9218636 email: cropeshawar@secp.gov.pk	**Faisalabad** Second Floor, Faisalabad Chamber of Commerce and Industry Building, East Canal Road Tel: 041-9230264 Fax: 041-9230263 email: crofaisalabad@secp.gov.pk
Sukkur House No 28-B, Hamdard Housing Society Airport Road Tel: 071-5630517 Fax: 071-5630517 email: croskr@hotmail.com	**Quetta** 382/3, (IDBP House), Hali Road Tel: 081-2844136 Fax: 081-2899134 email: croqta@qta.paknet.com.pk

Abbreviations and Acronyms

ACII: Associate from the Chartered Insurance Institute
ADB: Asian Development Bank
AGM: Annual General Meeting
AMCs/IAs: Asset Management Company/Investment Advisors
AMLO: Anti-Money Laundering Ordinance
APG: Asia/Pacific Group on Money Laundering
APREA: Asian Public Real Estate Association
ASOs: Authorized Surveying Officers
BDS: Board Development Series
BOD: Board of Directors
BPM: Business Process Management
CCG: Code of Corporate Governance
CDC: Central Depository Company of Pakistan Limited
CDD: Customer Due Diligence
CDS: Central Depository System
CEW: Commodity Exchange Wing
CFT: Combating Financial Terrorism
CFS: Continuous Funding System
CIS: Collective Investment Scheme
CIW: Capital Issues Wing
CLA: Corporate Law Authority
CLD: Company Law Division
CMA: Cost and Management Accountant
COD: Certificate of Deposit COI: Certificate of Investment
CNIC: Computerized National Identity Card
COT: Carry-over Trading
CRCS: Corporate Registration and Compliance System
CRO: Company Registration Office
CRS: Companies Regularization Scheme
DOW: Directors Orientation Workshop
DFI: Development Finance Institution
ECAP: Exchange Companies Association of Pakistan
ECO: Economic Corporation Organization
EGD: Electronic Government Directorate
EMC: Emerging Market Committee
EMC-WG3: Working Group-3 of Emerging Markets Committee
EMD: Enforcement and Monitoring Department
FATF: Financial Action Task Force
EOGM: Extraordinary General Meetings
FMC: Fund Management Company
FIU: Fraud Investigation Unit
FMU: Financial Monitoring Unit
FMGP: Financial (non-bank) Markets and Governance programme
GDRs: Global Depository Receipts
FRU: Foreign Relations Unit
HRIS: Human Resources Information System
HBFC: House Building Finance Corporation
HOD: Head of Department
IAIS: International Association of Insurance Supervisors
IACCD: International Affairs, Communication and Coordination Department
IAP: Insurance Association of Pakistan
IAIR: The International Association of Insolvency Regulators
IASB: International Accounting Standards Board
IAS: International Accounting Standard
ICAP: Institute of Chartered Accountants of Pakistan
IBA: Institute of Business Administration
ICMAP: Institute of Cost and Management Accountants of Pakistan
ICM: Institute of Capital Market's
ICW: Investor's Complaints Wing
ICT: Islamabad Capital Territory
IDF: Institutional Development Fund
IFC: International Finance Corporation
IIRS: Insurance Industry Regulatory System
IFIs: Islamic Financial Institutions
IFSCs: Islamic Financial Services (Non-Banking) Companies
IFRS: International Financial Reporting Standards
IFRIC: International Financial Reporting Interpretations Committee
IFSB: Islamic Financial Services Board
IFRS-4: International Financial Reporting Standard-4
IOPS: International Organization of Pension Supervisors
IPO: Initial Public Offering
IOSCO: International Organization of Securities Commissions
IS&T: Information Systems and Technology
IRC: Information Resource Centre
ISMS: Information Security Management System
ISE: Islamabad Stock Exchange
ISO: International Organization of Standardization
IVSC: International Valuation Standards Council
KSE: Karachi Stock Exchange
KYC: Know Your Customer
LAP: Leasing Association of Pakistan
LSE: Lahore Stock Exchange
LoU: Letter of Understanding
MIS: Management Information System
MAP: Modaraba Association of Pakistan

MLM: Multi Level Marketing
M&I: Monitoring and Inspection
MMoU: Multilateral Memorandum of Understanding
MMC: Modaraba Management Company
MoU: Memorandum of Understanding
N&ICAU: National and International Cooperation Affairs Unit
MUFAP: Mutual Fund Association of Pakistan
NBF: Non-Bank Financial
NAV: Net Asset Value
NBFCD: Non-banking Finance Companies Department
NBFC: Non-banking Finance Company
NBFI: Non-bank Financial Institution
NBFC Rules: Non-banking Finance Companies (Establishment and Regulation) Rules, 2003
NCCPL: National Clearing Company of Pakistan Limited
NICOP: National Identity Card for Overseas Pakistanis
NEC: National Executive Committee
NOC: No Objection Certificate
NIT: National Investment Trust
NTCs: New Terms & Conditions (of employment)
OSS: Occupational Savings Schemes
OPAC: Online Public Access Catalogue
PACRA: Pakistan Credit Rating Agency Limited
OTC: Over-the-counter
PE & VCF: Private Equity and Venture Capital Fund
PBA: Pakistan Banks Associations
PICG: Pakistan Institute of Corporate Governance
PRCL: Pakistan Reinsurance Company Limited
PME: Pakistan Mercantile Exchange
PSOA: Pakistan Society of Actuaries
PSEB: Pakistan Software Export Board
QCR: Quality Control Review
PSPD: Professional Services and Policy Division
RBS: Risk Based Supervision
QIBs: Qualified Institutional Buyers
RMC: REIT Management Company
RTS: Resume Tracking System
REIT: Real Estate Investment Trust
SAOF: Sub-Account Opening Form
SAFA: South Asian Federation of Accountants
SCRS: Specialized Companies Return Submission System
SCRA: Specialized Companies Return Analysis
SMC: Single Member Company
SLIC: State Life Insurance Corporation
SME: Small and Medium Enterprise
SOE: State-owned Enterprise
SMEDA: Small and Medium Enterprises Development Authority
SRO: Self-Regulatory Organization
SPVs: Special Purpose Vehicle
TABS: TA for Banking Sector Reforms
TA: Technical Assistance
UIN: Unique Identification Number
TFC: Term Finance Certificate
VPS: Voluntary Pension System

Declaration of Investment as on June 30, 2012

Submitted to the Federal Government by Mr. Muhammad Ali, the SECP Chairman, in pursuance of sub-section (6) of Section 16 of the Securities and Exchange Commission of Pakistan Act, 1997.

Sr. No.	Name of Company/ Partnership firm	Nature of Interest	No. of Shares of Face Value of Rs 10 Each
1	Allagro Real Estate (Private) Ltd.	Shareholding	1,368,300
2	Converge Technologies (Private) Ltd.	Shareholding	5,845,000
3	MAGM Holdings (Private) Ltd.	Shareholding	6,109,000
4	Inbox Business Technologies (Private) Ltd.	Shareholding	1,370,923
5	Multi Concerns & Enterprises (Private) Ltd.	Shareholding	2,500
6	Al-Shaheer Corporation (Private) Ltd.*	Shareholding	2,506,400

*Al-Shaheer Corporation and Meat One, the two partnership concerns, were merged and their assets/liabilities were taken over by the newly formed company, namely Al-Shaheer Corporation (Pvt) Ltd. on June 30, 2012. There is neither any new investment nor change in the investment already made by Mr. Muhammad Ali.

Declaration of Investment as on June 30, 2012

Submitted to the Federal Government by Mr. Imtiaz Haider, Commissioner, SECP, in pursuance of sub-section (6) of Section 16 of the Securities and Exchange Commission of Pakistan Act, 1997.

Sr.No.	Name of Company	Nature of Interest	No. of Shares/Units
1	Byco Petroleum Pakistan Ltd.	Shares	1000
2	National Bank of Pakistan	Shares	2062
3	Nestol Technologies Ltd.	Shares	2400
4	NIB Bank Limited.	Shares	7000
5	AKD REIT Management Company Ltd.	Shares	500
6	NIT (in the name of dependant family members)	Units	197.8606
7	NIT (in the name of dependant family members)	Units	197.8606